the Freeman

Ideas on Liberty

JULY 1982

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Leonard Franckowiak

Dear America:

PLEASE allow me to introduce myself. My name is Liberty. I am the way of life on earth which gives every human being the freedom to follow his special pathway to the pot of gold at the end of his own special rainbow. I am the way which encourages each person to fully develop his God-given talents and abilities. In my way, people are free to create; free to grow in mind, spirit and heart; free to discover their own uniqueness and fulfill their own special destiny. I engender expression of man's God-given free will in any way which is peaceful.

You sing about me in your songs and my name is mentioned some time, somewhere every single day of the year:

I pledge allegiance to the flag of the United States of America and to the Republic for which it stands, one Nation under God, indivisible, with Liberty and Justice for all.

See. There I am, near the end of the Pledge of Allegiance, linked arm and arm with Justice. For centuries men have yearned for me but knew me not—except perhaps—for a fleeting moment in the freedom of the forest or on the blue waters of the lake. Men have enjoyed my splendor, perhaps, under the hot sun in the farmfields or in the cool breeze on the hilltops.

Centuries ago the Lord came down from heaven and said, "I am the Lord, thy God; thou shalt not have strange gods before Me." Strange gods, however, did appear. There were the pagan gods of fire and lightning but they would be struck down by the Oneness of Him who is in Heaven. More strange gods appeared in the form of kings, dictators, and the lord high politburo. The God of Heaven would be usurped by interlopers and man would kneel before two masters: the true God of Heaven and the false man-made god of earth. The God of Heaven would be as He always was—merciful, just and good—and He would give to man the dignity of humanity in the expression of free will.

Mr. Franckowiak is a businessman in Chicago. His business includes a weekly radio program in behalf of freedom, from which this article is drawn.

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The insidious god of earth, however, would declare himself sovereign and master over all those in his dominion and declare:

> We are all mortals but you, my subjects, are more mortal than I for you shall live or die at my command. You shall toil in the fields or vineyards or factories as I direct. And the fruits of your labors shall be taken from you, in part or in whole, and shall be spent, divided or appropriated in accordance with my whims, fancies, dictates and caprices. I am your king and master; you are my servant and slave.

Men would do as their earthly masters directed but the burden was heavy upon them. Men would quest for me, Liberty, because I would have no man in bondage. It is the axiom of my way that all men are created equal in the image and likeness of God. Even though I held the promise that men of free will would indeed be free, still I could not be had.

But my time was to come. People would emigrate to a new land. They would be called Pilgrims and pioneers, visionaries and revolutionaries. In 1776 they would declare:

> When in the course of human events. . . We hold these truths to be self-evident; that all men are created equal, that they are endowed by their Creator with certain unalienable rights; that among these are Life, Liberty, and the Pursuit of Happiness.

I, Liberty, had been given a place of honor! Not only had I been recognized as being directly endowed by the Creator, I at last belonged to man. And man belonged to me. Oh America, how I loved thee then!

There would be a great war for Independence. Though my fate was at the crux of the battle, I could but stand immobile as a trophy on the mantelpiece. Patrick Henry would proclaim: ". . . Give me Liberty or give me death." Men and women, heroes all, would indeed sacrifice and die for me. Some say I was the source of their inspiration and strength. I do not know. Could my promise be so great that I should merit such high resolve?

When the war was over and the new nation was born I was given more fame and high praises. The Preamble to your new Constitution would allude to the fact I had blessings to give. ". . . (T)he blessings of Liberty . . .", it said. Imagine that. I, Liberty, had been placed in a realm normally reserved for the Deity. I would have blushed with pride if I were able.

In the years which followed the war I would become your central theme. In his farewell address to the Nation, President George Washington would have me so great a source of happiness that people would find glory in recommending me to the applause, affection, and adoption of every nation which did not know me. He would also express for himself and Congress: ". . . a love of liberty with every ligament of the heart . . ."

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Oh America, we were ever so much in love! Together we would banish our false god of man on earth—no imperial king, no lord high politburo, master be damned—slavery be gone. Together we created an atmosphere of freedom and the free spirit.

America would enter the era of the rugged individualist. It was an era of self-responsibility, self-reliance and self-esteem. As if he knew how all of this fit into a common mold, Captain Eddie Rickenbacker would say of America:

> The four cornerstones of character on which the structure of this nation was built are: Initiative, Imagination, Individuality and Independence.

There was in fact much individuality but of a very special kind because it was also an era of great cooperation. Together, people would build farmhouses, towns, cities, railroads and factories. Oh no, the time was not without its selfish or evil people; for in an imperfect world of imperfect people they would (and probably always will be) among us. But how America would prosper during our great romance! Can you imagine how I felt at the time? Me, Liberty, on a high throne while all around me people would overcome hardship, diminish poverty, find prosperity and bring about the highest standard of living ever achieved by anyone, anywhere on the face of the earth.

To be sure, material well-being is to be appreciated but was that the source of America's greatness? I think not, nor did your twenty-eighth president, Woodrow Wilson, who said:

> America is not a mere body of traders. Our greatness—built upon freedom—is moral not material. We have a great ardor for gain but we have a deep passion for the rights of man.

See. There we are together again. President Wilson didn't mention my name—he used the name of my counterpart, Freedom—but he did talk about the rights of man and that includes me. I belong to you. Thomas Jefferson, the man who brought us together in the Declaration of Independence, also reminded us: "The God who gave us life, gave us liberty at the same time."

I know not whether I am heaven sent or earthly bound. I only know I am pleased to be in the hearts of men. If I am the source of happiness, inspiration and strength, then I give thanks to the Lord. If I have blessings to give, then I bring them to you as His messenger. For I, Liberty, am just a spirit; but as a spirit given life in America, I beg you let me once again ride the high crest of our mutual love and admiration. As you feel me in your hearts, please also know me in your minds and remember me in your actions. Together we can build a better world.

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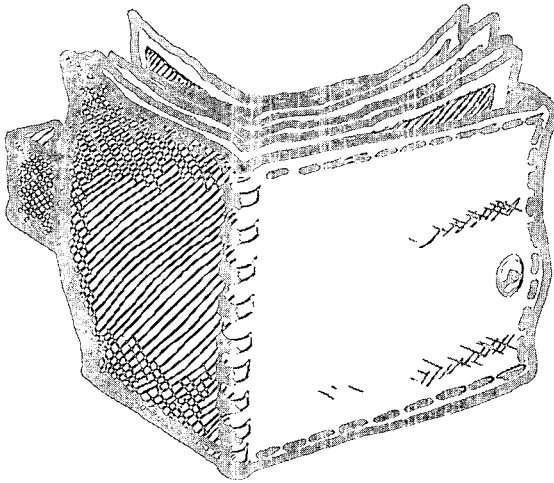
P. Dean Russell



Pay More and Get Less

My old economics professor was absolutely sure that a favorable balance of trade is good; and thus, of course, an unfavorable balance of trade is bad. He told us students that the trade arrangement of "more goods and services going out of a nation than coming in" is called *favorable* because that's what it is.

While I accepted that conclusion at the time, I'm now convinced that (if we must choose) an *unfavorable* balance of trade is the best arrangement. That is, the people of a nation are better off if more goods and services are coming into the country than are going out. Here's why.

Logically, you would expect each of us individually (and thus all of us collectively) to prefer to get more goods and services for our money than we now get. But that's not the trade policy favored by our leaders. Our national policy—enforced by fines and imprisonment—is just the reverse of how every one of us acts when we have a choice.

Astonishingly, we Americans collectively vote for leaders and laws that compel us to pay more than we need to pay for many thousands of the products we buy. And we have happily followed that procedure ever since Alexander Hamilton convinced Thomas Jefferson and the other founding fathers that the new nation would be better off if all its citizens were compelled to pay more for less.

What Alexander Hamilton wanted was, of course, a *favorable* balance

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of trade for the nation. He wanted laws that would increase the amount of products leaving our country and (by the use of various measures to restrict and to raise the price of imports) *decrease* the amount of products coming in. This artificial scarcity—i.e., fewer goods available within the nation because of increased exports and decreased imports—was endorsed by the very first United States Congress. And we professors of economics have generally been teaching that strange concept in our classrooms ever since Alexander Hamilton spelled it out in his famous *Report on Manufactures* in 1791. We honestly believe it is so, in much the same fashion as the doctors who treated George Washington believed that the dying president needed to be bled again when he really needed a transfusion of *more* blood to keep him alive.

Make-Work Schemes

I think I first began to wonder about that almost universally accepted idea concerning favorable (and unfavorable) balances of trade when I was a soldier overseas. I knew that the civilians back home were working long hours to produce products of various kinds. Then they shipped large amounts of them overseas to us soldiers. We, in turn, worked long hours to destroy (in one way or another) what they had produced.

That procedure went on for several years. We Americans used every possible incentive to increase production (the Gross National Product). Then we destroyed a large percentage of it and produced it again. And everybody agreed that we had never had it so good.

Everybody seemed better off than before. Everybody had a job. The economy was booming. A lot of people were becoming wealthy. Even my own pay had more than doubled. And for the first time in my life, I actually saved money. In addition to a steady job and more pay, I also got free food, housing, medical care, clothing, and life insurance. And apparently, most of this good fortune was based on a favorable balance of trade. A thousand times more goods and services were leaving our country than were coming in. Perhaps a million times more! It was perhaps the most favorable balance of trade ever recorded.

The logic of my old professor seemed sound indeed. He had taught us that a favorable balance of trade brings more jobs, more production, and more prosperity in general. And an unfavorable balance of trade destroys jobs and impoverishes the people. Therefore he (along with Alexander Hamilton) argued that the economic policy of our nation should be to have its people produce and ship out of the country more products than come in. If we want to prosper, he told us, we Americans as a group

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should (in the real terms of actual exchanges of goods and services) pay more and get less.

In spite of what seemed to be obviously true, however, I kept wondering if we could really become prosperous by shipping out more than comes in. Is it really true that the people of a nation are worse off because they get more goods and services than they give? Doubts began to enter my mind.

But just at the moment those doubts became overwhelmingly nagging, the Marshall Plan came along. Again I observed another mass outpouring of goods and services from the United States going all over the world. And most of it was free to the people who got it. I saw us rebuild Germany and Japan and various other nations. This went on for many years.

Policies Have Consequences

We always had a favorable balance of trade. We shipped out hundreds of billions of dollars worth of American products, raw materials, and labor—and got little or nothing in return. And as had been predicted by my old professor, prosperity continued right on here at home. Everybody was working. The conventional statistics on employment, production, and trade indicated clearly that we were more prosperous than we had ever been. The economy was booming. And with minor ups and downs, it continued to boom year after year.

Then one day, the charade stopped. The nations with the *unfavorable* balances of trade (i.e., those that got the goods and services we produced) had become prosperous. And the nation with the most favorable balance of trade the world had ever known (i.e., the United States that had produced the goods and shipped them out of the country) was in trouble.

Reality displaced the mirage that had enticed us for long. I finally understood that my old economics professor (and Alexander Hamilton) had been wrong all along. An unfavorable balance of trade is *not* necessarily bad. On the contrary, if one must choose, it is the preferred arrangement. Without exception, every consumer (everyone) is better off if he has more, not less. To use the ultimate simplification, observe that people with many goods and services have more goods and services than do people with fewer goods and services—and where the goods and services come from is not necessarily relevant to prosperity over a significant period of time.

I simply cannot now understand how, for so many years, I failed to detect that simple truth. Along with most Americans, I had made the unbelievable error of confusing the work with the product. I thought it was the jobs, rather than the products, that created prosperity. Under our

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policy of encouraging a favorable balance of trade, it is true that we increased both the number of jobs and the amount of goods and services produced. We accomplished that seemingly desirable goal, however, by shipping out of the country large quantities of the goods and services produced by the increased jobs.

The simple truism that we thereby had less (not more) didn't occur to me. We *paid* people to produce. Then we exported the production. That left us with fewer goods and more money. And that, in turn, eventually resulted in double-digit inflation and an economy in shambles. It became increasingly obvious that our apparent prosperity had been based on a consumption of our capital, a decrease in our irreplaceable resources, and a prodigal waste of our scarce labor. We were eating the seed corn in an all-out effort to increase jobs.

Balances and Jobs

In truth, however, there is no dependable correlation between balances of trade and employment. And the search for it is often like the similar search for a relationship between machines and loss of jobs, i.e., it appears to be governed more by emotion than science. During our long years of favorable trade balances, we sometimes had much unemployment. And sometimes we had labor scarcities. I have found this same situation in Argentina and various other countries. And the unfavorable balances of trade in Europe sometimes seemed to have a *negative* correlation with employment, i.e., the larger the inflow of goods and services from abroad, the more jobs at home in Europe.

One permanent relationship that *can* be shown between employment and trade balances, however, is this: If an American buys a foreign car, it's true that the work of producing that foreign car was done by foreigners, not American workers. At the same time, however, jobs in general in the United States may be high or low. And restrictions against imports in an effort to induce us to buy domestic (instead of foreign) cars could cause us to buy fewer cars in general, rather than more American cars. There simply is no reliable correlation between national employment levels and national balances of trade, either positive or negative. You can find many examples to "prove" whichever viewpoint appeals to you.

Another relationship in this general area that no one can deny is this: When we individuals voluntarily buy an imported article, we get a better product—or a better price than would have been the case if we bought a domestic article. If this were not so, we wouldn't voluntarily buy it. That's proof positive. The person who disagrees is necessarily imply-

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ing that *he* knows what's best for us—*all* of us—even if it costs us more money. I say no.

Finally (and the reason for this article), we are now blaming our present economic difficulties largely on the fact that we ourselves have been running an *unfavorable* balance of trade for several years now. As a nation (and in *real* terms), we are getting more than we are giving. The politicians, the editorial writers, the labor leaders and, most of all, our business leaders are now claiming that we are poor for this reason: Those crafty foreigners are literally flooding our country with products and services—much of it free and almost all of it of excellent quality at low prices.

Everywhere I go, I hear people saying that we can have prosperity again if we do something to decrease the amount of products and services we have. They also say we must raise prices to bring back prosperity. They are advocating laws to force us to pay more and get less.

There's no way that such a policy can bring prosperity. It is a delusion that will soon drop us into a new economic category—the developed nation that is becoming un-developed.

IDEAS ON LIBERTY

Threats to Progress

THE so-called "benefits" of tariff protection are illusory—the only consequence of the tariff being that the domestic owners and workers are competing with one another in an industry erected on a false base. The base is false and weak because it is supported by the threat of force—force which directs individual spending—instead of by voluntary choices. The force is directed against consumers, the friends and neighbors of those who seek special privileges for themselves. But consumers do not respond kindly to force or threats of force. They have only so much buying power, and they cannot be forced to buy more of everything. Nor will they buy a commodity as freely as before if its price is forced upward by a "protective" tariff. Thus, tariffs serve merely to put the whole economy on an artificial foundation instead of on a sound business foundation. No one really gains—and nearly everyone loses—by this arrangement. It stifles progress.

W. M. CURTISS, "Serving Consumers"

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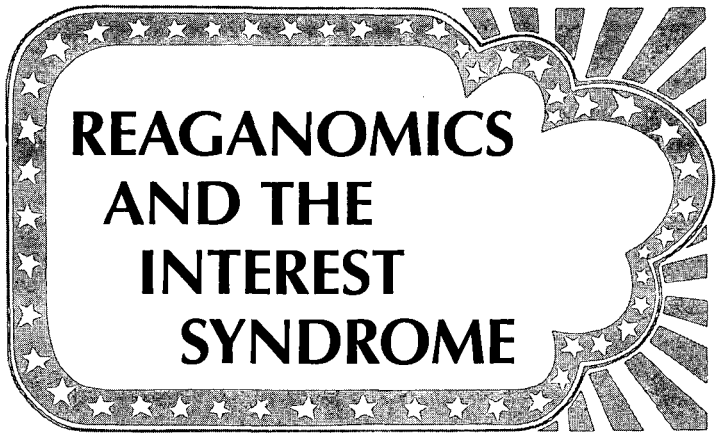
Elgin Groseclose



REAGANOMICS AND THE INTEREST SYNDROME

THE Administration's efforts to balance the budget and reactivate the economy recall the county fair contests of an earlier generation known as climbing the greased pole. Just as it appears that inflation is being brought under control, interest rates start rising again, bringing the seed of inflation, erosion of savings, reduced capital investment, slower business and continued deficits.

How to control interest rates? Should the Federal Reserve lower its lending rate, push more reserves into the banking system, or use some other mechanisms? Professor Milton Friedman, an advocate of steady increase in what is called money supply, has complained that the FED did not use the right tools, and added that there was no historical precedent for the constant interest rate fluctuations of the past few years.

For decades the Federal Reserve has assumed responsibility for determining how much money/debt/credit the country needs, and in 1978 was required by law to set and announce "targets" for money supply. An Open Market Committee — a group of twelve—meets periodically and with the assistance of batteries of computers and reams of charts decides the amount of "money" needed by the economy to maintain steady growth at reasonable interest rates. Its main device is to buy or sell in

Dr. Groseclose, a financial consultant in Washington, D.C., is the author of *Money and Man* (1934, 4th edition 1976) and *America's Money Machine* (1966, 1980). He serves as executive director of the Institute for Monetary Research.

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the market its own debt instruments (notes or deposit credits) which thereafter become money equivalents and reserves in the banks. This system permits the banks to extend their own debt commitments through deposit liabilities and thereby increase the "money supply."

Whipping a Dead Horse

"Money supply," taken to represent the current purchasing power in the economy, is generally defined as the note liabilities of the Federal Reserve Banks plus the demand liabilities of banking and like institutions; it is called M_1 (or M_{1b}). A simpler definition is the amount of demand debt in the economy.

The futility in trying to control "money supply," and thereby interest rates, was illustrated by a speech by Anthony M. Solomon, president of the Federal Reserve Bank of New York before the American Economic and American Finance Associations on December 28, 1981. Mr. Solomon pointed out that during the first eleven months of 1981, the money supply figure used by the Federal Reserve (M_1) rose at a modest 2.5 percentage rate; the figure, however, was deceptive; other money equivalents in the form of Eurodollars, money market funds and the like, called M_2 and M_3, rose at 10.1 per cent and 11.1 per cent respectively.

In short, as Mr. Solomon conceded, "A fundamental re-evaluation of our use of monetary targets may be necessary."

Vestigial Marxism

This observation is one that should have been apparent years ago to monetary historians and students of monetary phenomena. That money supply through debt formation can be controlled by a select group of experts sitting in a marble mausoleum on Washington's Constitution Avenue is a vestigial relic of Marxist economics—the theory that the state is the repository of all economic wisdom and hence the ultimate authority for economic planning.

The reason debt and money supply and interest rates can not be controlled, but will continue to increase, lies in the nature of what passes for money. The currency in circulation, apart from debased token coinage, consists mainly of Federal Reserve notes. Until 1934 these notes were payable on demand in gold coin. Since 1934, the notes have been redeemable only in other notes—a perpetual rollover of debt without maturity, with the interest payable only in more debt. Debt multiplies upon itself without limit, with each increment lowering the purchasing power of the total.

Here is the basic explanation of the upward pressure on interest rates, the effects of which filter through into the general price struc-

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ture. Until 1946 these effects were hidden by reason of the great influx of gold during the preceding decade, an influx that anesthetized the inflationary effects of Federal Reserve policy. The awakening came after the close of World War II, when the flow of gold seeking security here ceased, and a reverse movement began.

As prices rose, investors grew increasingly reluctant to put funds out at long term except at the higher rates of interest required to offset the loss of purchasing power of the dollars received at maturity. This is reflected statistically in the amount of government debt that increasingly had to be incurred at short term. In 1946, the mean interest rate on government bonds was 2.19 per cent, and 23 per cent of the public debt was at long term. In 1981, the mean interest rate was 12.87 per cent, and only 6 per cent of government debt was long term.

How Much Debt?

The Federal Reserve System sits over the economy, breeding debt like a queen bee of a hive spending its existence in laying eggs. Can a stable price level and stable interest rates be achieved while this debt creation continues? Total dollar debt that ten years ago was calculated at around $1.8 trillion is today around $5.5 trillion, the largest increase occurring during the past 5 years.

During 1981, M_3, the broadest measure of "money supply," increased by $222 billion. Federal debt in the hands of the public increased by $93 billion. Who were the other borrowers? Billions were lent to finance mergers and acquisitions, like those by du Pont and U.S. Steel. One bank alone (First Boston Corporation) boasted that it had underwritten or participated in mergers and acquisitions involving over $30 billion. Other amounts were sunk in loans to indigent foreigners, like Poland and Turkey.

Reduction of interest rates, the price level, and the debt burden, demand what neither the Administration, nor the Federal Reserve, nor the monetarist school yet accept, namely, a restoration of a money of substance. The country can not prosper on a system of perpetual debt, or a system in which the only means of debt payment is another I.O.U.

IDEAS ON LIBERTY

Francis Adams Truslow

THE CITIZEN who calls on government to supply him with security from the cradle to the grave, thereby encouraging government spending, is a danger to himself and his fellow citizens. If his pleas are successful, he can lose his freedom and gain no security in exchange.

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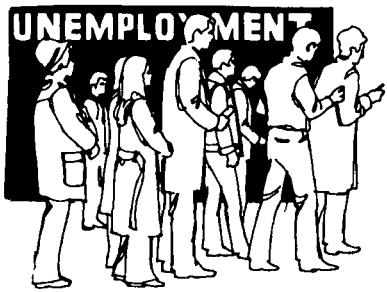
Roland W. Holmes



The Cure for Unemployment

THE cure under discussion here does not refer to the elimination of all unemployment. Some unemployment is voluntary and some is caused temporarily by unavoidable natural catastrophes such as earthquakes and floods, or by human error and misfortune. Rather, we are concerned about those arbitrary, deliberately applied forces in the marketplace—attempts to raise wages above free-market levels. Such forces, to the extent that they accomplish their objectives, cause totally unnecessary and permanent unemployment. Bitter frustration and misery for countless thousands of would-be workers is the inevitable result.

During the Great Depression of the thirties, the fear of unemployment panicked Americans into letting down the bars to the so-called liberals; and for about five decades, these liberals have addressed almost every conceivable human problem by being liberal with other people's money—collected, or printed, by the government. For a time it seemed that no great harm was being done. But now it has become apparent to more and more citizens that this kind of cure-all results in intolerable degrees of taxation and inflation, accompanied by a growing amount of unemployment.

Current political philosophy, to a great extent, recognizes the crucial importance of reducing inflation. Consumers are disgruntled over constantly and rapidly rising prices. But suppose prices are forced to level off by restricting the increase in the money supply, while wages continue to be forced upward. Marginal employees will lose their jobs. Unemployment will increase. If this should

Mr. Holmes is a retired aeronautical engineer in Bellevue, Washington. He has written, lectured, and organized study groups to help understand and preserve freedom.

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precipitate another wild orgy of disastrous governmental intervention as it did in the thirties, it could lead to the ultimate extinction of the freedom of individuals that has made America the most desirable place to live on Earth.

On page 291 of his book, *The Failure of the New Economics* (New York: D. Van Nostrand Company, 1959), Henry Hazlitt defines the requirement for full employment in this manner: "No matter how low total monetary demand falls, full employment could exist at the appropriate relationship of wage-rates to prices. No matter how high total monetary demand is pushed, unemployment will exist if an unworkable relationship exists between wage-rates and prices."

Free Competition for Jobs

But what is the "appropriate relationship" between wage-rates and prices? How can such a magic relationship be established?

Nothing could be simpler. Allow every person looking for work to accept a job at the highest wage he can get. Let him bid freely. This is a job for *individuals*. Only individuals, acting as free, responsible persons, can solve the problem. *The cure for unemployment is free competition for jobs*. Only a free market can arrive at "the appropriate relationship" between wage-rates and prices.

There is no reason for such an idea to put an end to labor unions. In fact, it could stimulate the formation and growth of a whole network of unions of a new breed, or of one or two great labor organizations that would embrace all who contribute brains and brawn, from newsboys to top executives.

The collective (the union) would employ its resources to assist each and every individual member to make the best possible bargain, suitable to that person's tastes and desires. Computerized data covering national and worldwide conditions of vital importance to job seekers could be made available exclusively to members. Such data could be catalogued by localities, industries and individual employers, and could include such aspects as weather conditions, living conditions, prospects for growth and advancement, and how well individual employers treat their employees. No attempt whatever would be made to bargain workers' services en masse, like selling a trainload of cattle. No attempt whatever would be made to influence a wage level as such. The practice of letting a completely free market establish wage levels would be held sacred.

An organization of this kind might prove to have far more appeal to the average workman than most present organizations. Despite the coercive powers that unions currently possess, they have had trouble in their

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attempts to increase membership. Probably the reason is that a majority of workers value their individual independence above any advantages that might be enjoyed by virtue of membership in a union.

A few months ago, I experienced an example of this desire for independence. I was having my car repaired in a shop that was being struck by the union in an attempt to obtain a closed shop. One of the union members, an excellent mechanic, was still in there working. When I asked him about it, he said "I'll be damned if they're going to tell me what I can and can't do!" The guarantee of complete freedom of individual choice, and the assurance that no one would ever be asked to endure the trauma of a strike, would undoubtedly be attractive to a great many prospective members.

Labor unions are correct in seeking better economic conditions for their members. But they have failed to obtain the best possible conditions for *all* of their members, because they have refused to recognize the hard realities of the marketplace. They have persistently ignored the Law of Demand for Labor: the higher the wage asked, the fewer the number of workers that will be hired; and the lower the wage asked, the greater the number that will be hired. This law is rigidly enforced by the decree of millions of potential purchasers of the products of the labor involved—truly "dictatorship of the masses." The Law of Demand *cannot* be repealed.

Collective bargaining, as presently practiced, attempts to raise the wage level of a group of workers above the current level. To the extent that the effort is successful, eventually—not immediately, but eventually—it will mean that some of the members of that group will be laid off, will be unemployed. At the higher cost of production, employers will find that higher prices must be asked in order to maximize profits. The higher prices will result in decreased quantities purchased by the buying public.

It will normally take considerable time for employers to learn to what extent the quantity purchased will be reduced due to the higher price, but the ultimate unhappy result is inevitable. "The mills of the gods grind slowly, but they grind exceedingly fine." Unfortunately, this time lag obscures the cruel result of collective bargaining as presently practiced.

Minimum Wage Laws

Minimum wage laws have the same restrictive effect as collective bargaining. They destroy the natural right of certain persons to bid effectively for a job. By raising wages by force, or the threat of force, above the free market wage, it is decreed, absolutely, that some will not be

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hired who wish to be hired. This is especially sad because it victimizes the young, the uneducated and the inexperienced—the very poorest of the would-be competitors in the labor market. It keeps some from ever getting on the ladder of accomplishment, and thus creates frustrations that often lead to drugs and crime.

Incidentally, these practices of bringing about artificially high wages point up the injustice of deciding economic matters by majority vote. Those who are still able to obtain and hold jobs at the higher wages are normally in the majority. They can hardly be blamed for favoring the process, even if they realize the dire consequences for the minority who suffer. Furthermore, in the broader political arena, the majority of the voters probably fail to understand these causes of unemployment. But whether they do or not, they salve their feelings, whether they be feelings of guilt or sympathy, by sanctioning further governmental violence in the form of robbing those still fortunate enough to have jobs, hopefully in favor of those who have been forced out.

Fortunately, there are indications that there is a better climate of understanding in the political and industrial world of today than existed in the thirties. And it is especially encouraging that such improved understanding is present where it counts most: in labor union leadership. Evidence of this appeared recently in a column on page one of the *Wall Street Journal* of September 30th, 1981, entitled "Bargain Year," by Robert S. Greenberger. A chief economist of one major union is quoted as saying "I'd be surprised if there's a lot of demand for big increases next year. Most of us will be happy just to hold on to what we've got."

That kind of talk is sensible and heartening. But consider the problem that even the wisest and most considerate labor leader is up against in trying to sell the services of tens of thousands of workers in one big lump. There is no conceivable way in which anyone can know what the correct wage should be for all those workers, either individually or en masse, even for a day. And the current custom is to try to establish such a correct wage for up to three years in advance! No wonder we are in trouble.

Remove the Chains

That trouble is haunting us in the form of the twin diseases of unemployment and inflation. Only a free market for goods and services can bring about the price and wage adjustments necessary to cure those diseases. Modern development of data processing and communication is rapidly becoming so potent that such essential adjustments can be

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accomplished in short order. Millions of *individuals,* each acting in his or her own best interest in view of his or her present circumstances, can arrive at the best possible solutions pronto. All that is necessary is to remove the shackles.

The farsighted labor leader of the future will see that removing the impediments to full employment amounts to freeing the whole labor movement to grow and serve its members as never before.

There is virtually no limit to the kinds of service that a free-market union could offer its members. Small businesses often find it difficult to offer their employees such benefits as insurance and pensions. They can only compensate for this lack by paying higher wages. A large union could furnish the opportunity to buy inexpensive group insurance, and could also set up efficiently operated retirement funds.

The union could offer educational courses in self-improvement and economics. A thorough understanding of the benefits and ultimate fairness of a free-market system could do much for the peace of mind and contentment of union members. Such courses could explain that profits and losses are our only guide concerning what to produce and what not to produce, in accordance with the wishes of the whole buying public, and that this, incidentally, is why enforced communism can never work to the advantage of the citizens. It could be shown that the larger the profit, the sooner the adjustment to producing larger quantities of something that is suddenly discovered to be very desirable, pulling workers into newer fields by means of higher wages.

Minimizing Business Cycles

It could be shown that, so long as we have fractional reserve banking, we seem bound to experience business cycles, and that a practice of free competition for jobs and free competition for help tends to dampen the swings. Not only can full employment be hastened during the downswing by bidding wages down as necessary, but rapidly increasing wages during the upswing would have some tendency to lessen the overinvestment that occurs in times of euphoria. That a free market for help is superior to present-day collective bargaining at such times was demonstrated in the upswing in the economy induced by the Kennedy tax cuts of the sixties. Wages in the unorganized labor areas frequently rose more rapidly than in the unionized areas.

A free-market union could have a beneficial impact on the attitude of employers toward their employees. For example, it might inform employers of mistakes they are making, perhaps without even realizing it, concerning the treatment of their

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help. I am sure that many present unions are performing this kind of service that is of mutual advantage. The union could assist employers in setting up systems for paying as nearly as possible according to *value*.

I was once able to establish a method for doing just that. The resulting beneficial effects on both morale and productivity were most gratifying. Men and women respect an employer who demonstrates consistently that the employees are paid fairly *relative to each other*. And they know who's who. One of our supervisors tried the experiment of asking each member of his group to evaluate his fellow workers relative to each other, simply representing values by lengths along a line. He found almost total agreement among them, and with his own evaluations. There is a great deal of room for improvement along these lines among employers.

Mutual Assistance

The attitude and contentment of workers will naturally improve as they are brought to realize that by increasing their value to their employers, they are increasing their value to all mankind—that by gaining increases in their wages in this manner, they are doing the whole world a favor. In the last analysis, we are all working for each other, with employers functioning as the essential go-betweens, organizing the whole process. What a difference there is in gaining pay increases by increasing one's value as compared with gaining them by forcing unknown workers out of competition by the threat of violence!

One of the most valuable and comforting truths that could be demonstrated to union members is the fact that producing a good or a service creates a demand for other goods and services. We trade our labor for money that we ultimately trade for other things. Before there was any such thing as money, we can picture a hunter trading an extra deer for fish caught by a specialist in fishing. But the hunter could not demand fish until he produced a deer. His product was his source of demand.

Suppose that more workers are hired at lower wages in the automobile industry. This would mean more cars to be traded for more goods and services produced by other industries. So more cars mean more demand for goods and services produced by other industries, and more goods and services produced in other industries mean more demand for cars. Everyone has more, not less, because of the lower wages. There is no such thing as a limited number of jobs, because each job creates its own demand. The only limit to this increased demand is the number of workers available. Full employment (for all who wish to be employed) and

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maximum possible standard of living for all is the natural condition in a free-market economy.

Incidentally, the fact that there are always only so many workers available can be very comforting to anyone who might be entertaining the fear that, in a free market, employers could drive wages down to bare subsistence levels. When all are hired who wish to be hired, that's it. Wages can go no lower.

But of all the benefits and advantages that could be realized by a member of a free-market labor organization, perhaps the most gratifying would be, surprisingly enough, the *power to bargain!* The pressure on employers to live up to standards of treatment of their employees dictated by the market would be enormous—far greater, ultimately, than any strike threat could be. Nothing can be more compelling to an employer than to see his better workers leaving him, one by one, for better jobs, especially if some union is recording such departures and notifying its membership (and the employer) of his shortcomings.

The Power of the Market

In the early days of the Industrial Revolution, as efficiency and productivity increased with capital accumulation, this power of the market to dictate higher wages and better working conditions became so annoying to employers that they succeeded in getting *maximum* wage laws passed. As troublesome as such laws must have been, they were no match, ultimately, for the dictates of the market. Living and working conditions for the working classes continued to improve, and the maximum wage laws were either repealed or became dead letters.

Now, some 200 years later, political power has swung to the opposite camp. The same errors of trying to defy the natural laws of human action are being committed, but this time in the opposite direction. Instead of a shortage of workers—the condition that confronted employers when they held wages too low—we now have a shortage of jobs.

We can proceed toward the promised land of full employment only as the conventional wisdom becomes strong in the understanding of the virtues of a free market. We can reach our goals only when the mores of the community decree in no uncertain terms that the use of violence in the marketplace, even if legal, is immoral; and that that principle is particularly apt in making it possible for all who wish to work to obtain jobs.

The cure for unemployment is free competition for jobs. To the extent that this simple fact is recognized in our society, to that extent will our effort to stem the growth of governmental intervention receive an essential boost.

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Brian Summers

HOW TO DEAL WITH STRANGERS

WHEN we were young, our parents provided for all our needs. As we grew older, we learned to rely on our brothers, sisters, teachers, and friends. Strangers, however, were not to be trusted. Besides, who needed them?

Societies have developed along similar lines. In the earliest societies, people lived pretty much by their own wits. Later, they turned to their immediate neighbors for help with hunting, harvesting, and mutual protection. Strangers, however, were to be feared and driven away.

Only in recent times have people realized that strangers have something to offer. Let us review what has been learned about dealing with strangers, in the hope that we won't repeat past mistakes.

Strangers are different. They look different and sound different. They also produce different goods and services. They have different skills, different natural resources, and grow their crops in different climates and soils. If we want to share in the many things the world has to offer, we will have to deal with strangers.

It's harder to go it alone. Sometimes a stranger will offer a product that we can make in our own community. But perhaps he can make it for less. We can get more goods and services by specializing in what we do best, and trading for the products that others make best.

The carrot is better than the stick. If we want to get what a stranger has to offer, it is best to offer something in return. We can take what he has by force, but then he will stop producing. We can place heavy burdens on his output, but then he will trade with others.

Some strangers are very smart. They try to figure out what goods and services we will want, and then do their best to cut the costs of production. When they fail, they sometimes suffer great losses. But when they succeed, they often become rich. And because we are the ones who use and enjoy their products, we also benefit. It is smart for us to let others work in freedom.

We are all strangers. Our customs and ways differ from those of everyone else. But just as other people offer their goods and services to us, we offer our products to them. When we rely on someone as a trading partner, he also relies on us. In free trade, each person provides for his own needs by helping provide for the needs of others.

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Douglas Wentz

The "Right" to Education

I am a graduate student at an expensive Ivy League university. The federal government's guaranteed student loan program already has financed $5,000 of my educational costs, and substantial additional debt looms on my horizon. My father, an honest, hard-working bookkeeper, earns substantially less than does my mother, a public schoolteacher. Certainly I, if anyone, should join the ranks of those who, in their own self-interest, have marched on Washington to protest cuts in aid to students.

Why, then, have I hesitated? Why have I, as one who stands to lose a substantial government subsidy, chosen to remain aloof and above the fray?

The answers to such questions are many and varied. In part my action (or inaction) reflects a long developed disgust at abuse of existing programs. Certainly, too, my stance reflects the belief that, in an age when both food stamps and entitlements are facing the ax, no program, least of all government aid to graduate students, should remain untouched.

Significantly, however, my thoughts turn also to a more fundamental question—one concerning the very concept of government in a free society. I am prompted to wonder whether I, as my colleagues argue, somehow enjoy an intrinsic "right" to education. Does the American government "owe" me, in some principled sense, unrestricted access to graduate loan assistance? Is it true that, as Norman Cousins noted: "It is no longer correct to regard higher education solely as a privilege. It is a basic right in today's world"?

My conscience thinks not, and de-

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spite the adverse effect on my pocketbook, therein lies my hesitation. For unlike national defense, police protection, and other aspects of life in society, education is not and never has been a purely "public" good. Though governments out of obligation and necessity may provide for defense and security, governments do not, therefore, owe me or anyone else funds for the pursuit of a master's or law degree.

A Cousins-type argument for intervention in the provision of educational services runs as follows. Governments, if viewed as distinct agents, may be defined in terms of their functions. An economist views Washington, then, as a factory for the production of "public" goods—those services (such as national defense, post offices, flood control, and so forth) provided for all citizens.

The Problem of "Free Riders"

Regulations, taxes, and other methods of economic intervention are levied by governments in response to situations in which universally desired goods are not produced by free operations of markets. Police officers and road fixtures, for example, are necessary everyday goods, but private systems may not provide them in amounts considered "optimal" by many citizens.

Governments, it is argued, and not markets, then, ought properly to oversee the provision of public goods. Many services are nonexclusive in nature; once they are provided, it is difficult to prevent individuals from deriving benefits. An adequate defense establishment protects everyone in the country whether they like it or not. Markets in this instance are not efficient, and are thought to face peculiar allocational difficulties, most notably the so-called "free-rider" problem. Since market systems cannot compel payment for a collective good, there is no way to prevent a person from receiving the services of the good if he or she refuses to pay for it. Organizations which provide benefits to, and confer obligations on, their members (such as governments, labor unions, and the like), then resort to coercive methods for providing public goods. Workers in unionized plants, for example, may attempt both to enjoy the benefits of unionization, and to avoid union membership and the subsequent payment of dues. To counter such temptations, many organizers insist on "closed" or "union" shops. Similarly, governments (as opposed to markets) are uniquely suited to eliminate free riders by mandating taxation for the provision of public goods.

The concept of government so defined, it is easy to see how Cousins and others view education as a right, and not a privilege. Education, they argue, is a public good; there are many ways in which all of society

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gains from the widest possible spread of education. Education may lead to universally recognized technical advances; the economic payoff to society of investments in human capital is great. Further, education may make democracy work "better," both by preparing an intelligent electorate, and by creating citizens better trained and better able to cope with pressing social problems. Taken together, such benefits are non-exclusive; individuals can not be prevented from realizing the returns of overall educational improvements. A government ought, then, in a normative sense, to provide for the education of its citizens, in the same manner to which a government "ought" to provide for a national defense, or for any other public good.

Personal Benefits

What this argument fails to recognize, however, is that unlike the rewards of national defense and public safety programs, many benefits of educational subsidies are *private,* and not public in nature. Educated individuals earn higher incomes. They also may value their stay at a university because of cultural or social reasons, or indeed because it delays the necessity of deciding what to do next. None of these benefits reflects significant externalities—citizens directly secure college degrees for themselves. Indeed, since individuals can be excluded from gaining these benefits (those who fail to pay tuition, fail to matriculate), the procurement of an educational service does not differ in a fundamental way from the purchase of any other private good.

And is not the provision of private goods precisely the domain of the free market?

It seems that education, correctly understood, is neither purely a public nor a private good, but a mixture of both. One is left to debate, then, the extent to which this is true. If it were argued, for example, that elementary schools have important collective aspects, then the government, as a provider of public goods, might opt for subsidization. Alternately, however, if the benefits of advanced degrees are especially private, provisions for higher education might be left to the free operation of the market.

Unfortunately in practice it is difficult to draw such fine distinctions (particularly in light, for example, of recent success in the operation of private high schools), and so determining the correct amount of government support for education is a troublesome political issue. But this, of course, is precisely the point! For even if it is true that governments primarily are providers of public goods, since education in fact entails many elements which are private in nature, it does not follow that citizens therefore enjoy a "right," in

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some absolute sense, to student aid. Rather, the extent of educational assistance is a matter of great controversy, and is an argument in which there exist no foregone conclusions.

The Members of the House Education and Labor Committee may argue, for example, that it is inadvisable to approve additional cuts in student aid programs, particularly those focused on assisting low and middle income college students. These very same members, however, might in fact conclude that evidence of waste and fraud in the graduate student loan program warrants its elimination. Significantly, whether either position is to be adopted is a political decision, and not one which turns on some quasi-legal question of whether anyone's "right" to education has been violated.

Graduate students such as myself do not, as some suggest, enjoy a "right" to education. The proper extent of government aid to students is a political question, and a point about which reasonable men can, and fortunately do, disagree.

IDEAS ON LIBERTY

Rights for Robots

IN A SOCIETY of free men, each acting on his own responsibility, honesty is the best policy. But as we move further from the individualist position into compulsory associations, unions, districts, counties, nations, and states, we tend to lose touch with that essentially personal quality—honesty. Honesty may be described as a force governing dealings between individuals. When the transactions are between masses, they tend to become less honest; when between nations, there is, indeed, little pretense of honesty about them. That simple circumstance arises not from evil intent but from the very nature of man's conduct.

All this concerns a philosophy; a point of view from which to start. And if only individualism could get these foundations well laid in the minds of the people, we could then proceed with our voluntary social services and other humanitarian plans for the comfort of the less fortunate minority. As it is—without these foundations—charity, good feeling, desire to help, sympathy, and many other virtues have been brushed aside. And in their place there has been set up the mean, unworthy, degrading, and destructive notion of rights for robots, which is mankind under complete government planning.

SIR ERNEST BENN

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Hal Watkins

THE JONESTOWN SYNDROME

In 1978 the world was shocked by the mass suicide of 900 people in a Guyana commune called Jonestown, named for their charismatic leader, Jim Jones. Information available to us indicates Jones seemed to have such power over the minds of the people that he was able to pressure them into taking their lives. Immediately the question came to others of us: How in the world could a man gain that much control over the minds of men?

It was perhaps 25 or 30 years ago that we heard of another leader who called himself "Father Divine," a blasphemous name. But there seemed to be plenty of people flocking to the "heavens" of this self-styled deity. He had "heavens" in several large cities in the United States, and when he wanted to open another one he was able to pay hundreds of thousands of dollars in currency, not checks.

Sun Myung Moon, a Korean minister, has come to America and recruited hundreds of its young people for his cause. They commit themselves to him, live in his communes and work long hours every day to raise the millions of dollars which his projects require; and he, like all such leaders, lives in opulence.

In the early part of the past century Robert Owen established a commune in the Ohio valley. His glowing praises of socialism so infected people that many of them left their normal pursuits and joined his enterprise, for a while.

In July 1981 an Indian guru calling himself Bhagwan Shree Rajneesh paid $6 million for 100 square miles of Oregon about 180 miles from

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where I live. He and 200 disciples have applied for a city charter in the middle of the spread, and they are calling the town Rajneeshpuram. His followers, who called themselves sanyassins, don't have to turn all their property and pensions over to him, but most of them do. This allows him to live in plush style which includes a Rolls-Royce, a conveyance that more or less stands out on the country roads of that part of Oregon.

Why the Submission?

History would supply us with many such efforts at communal living or socialism. The feudal lords and their serfs were actually one variety of the same concept, and as we look back to those medieval days we wonder why anyone would be part of such a thing.

Earlier in this essay we wondered how a man could get such control over people that they would submit themselves so totally to his will. But I think a better question is: Why do people allow themselves to be controlled by one who exercises such totalitarian authority? Why do they surrender freedom of thought and movement to him? Even a hypnotist can't function unless his subject is willing to open his mind to the suggestions of another.

First, there has to be the promise of something to be gained. No sane person will surrender himself to the authority of another unless he gets something in return. He either gets it immediately or he believes almost beyond doubt that he will get it, on down the road. In an economy of freedom of exchange, trades are made because each one is willing to trade something for something else which he values more highly. In the communal example we have cited it is quite obvious that the person who elects to come under the total authority of a Jim Jones is interested in security.

Everybody wants material security. No one likes to live on the financial edge of nothing. Most of us try to figure out ways of saving up for the rainy day when we can't produce the daily necessities. Banks are able to stay in business because their depositors entrust their "nest eggs" in anticipation of a day when they can no longer work for salary or wages. This was *the* selling point in the '30s when "social security" was sold to the American people.

Part of the Jonestown syndrome is the deep-seated desire for security, and there seems to be no shortage of people who are willing to surrender minds and freedom of movement in exchange for such security. Jones promised it; so did Father Divine. Moon holds out this carrot to his followers, and the Indian guru does the same for his devotees.

Perhaps you are thinking, "Well, this is all very interesting, but—af-

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ter all—he is talking about a tiny percentage of the total population. Why get stirred up about it? Let them do their own thing." True, the examples cited are minuscule compared to the whole of society, but they are actually an exaggeration of a more widespread symptom. Millions of Americans who are not in communes have an overpowering desire for security, and this desire shows itself on several fronts.

Why do people join labor unions voluntarily? They think by so doing they gain job security, a pension plan, or a guaranteed annual wage. To get these benefits(?) they have to give something in exchange: part of their freedom, their union dues and some of their intellectual integrity. Millions are apparently willing to pay such a price.

Why do so many defend the minimum wage? Their answer? "Why, anyone who is worth anything at all is worth $3.50 an hour!" As it turns out, there are thousands of potential workers, especially among the young, who are worth nothing in the job market. They aren't worth $3.50, and no one is allowed to hire them for less; therefore, they are worth nothing. This time it is a matter of wage scale security. They have little or no concern for young people entering the job market, but rather they want a floor under their own pay scale, hence the minimum wage laws. They set a price on a certain commodity (unskilled labor) which no one is willing to pay. And all this results from a misguided lust for security.

Shifting the Responsibility

Another symptom of the Jonestown syndrome, one that is interrelated with the above, is the desire to shift responsibility onto others. In this case I prefer the word *un*responsible rather than *ir*responsible. The same attitude is quite dominant in nursing homes among those who *could* take care of themselves but would rather not.

In the promotional pitch of the commune in Oregon which is run by the Indian guru is the line, "It is a place where people may live their lives according to their own vision." Translation: "Do as you please." But the Associated Press investigative reporter arrived at a different conclusion from examining some of the 200 to 300 books supposedly written by the guru: "His philosophy is based on total loss of individual ego and no restrictions on individual actions." Obviously the Indian mystic has stumbled onto a good thing. By means of nearly total control of the minds and lives of his subjects he is enabled to live on a very affluent level.

How does this relate to our country as a whole? Uncomfortably well. Too many of your fellow citizens suffer from the same mind set. "I don't care what kind of government we

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have, whether the people in authority are virtuous or corrupt, or if the currency is stable or inflated. I'm not concerned about national defense or foreign relations. Just give me enough to eat, a color TV and a can of beer." Just what approach do you suppose a smart, opportunistic candidate will make to your *un*responsible neighbor? One guess is all you get on this one.

"Utopia now" is part of the Jonestown syndrome. But the message of the New Testament is that this life on earth is not a utopia; it is not heaven. In this life we are pilgrims journeying toward something better than anyone has ever known, and Jesus came to show the way. The philosophy of delayed gratification has always been embraced by the people of God. The Serpent in the Garden of Eden said, in effect, "You don't have to wait; you can have it now!" Be your own god, and write your own rules. The same Serpent came to Jesus on the mount of temptation: "Just bow down and worship me and you can have it all!"

Changing our Minds

There is an inherent problem in the Jonestown syndrome. In order to become a victim, one must virtually quit thinking or have his mental computer reprogrammed with garbage. Evidently the intellectual climate of our beloved land is ripe for this social malaise. Colleges and universities have been preparing us for it. The "public" school, so sacred in the minds of so many, is the Trojan Horse within our midst. The powerful media are generally oriented in the same direction. Basically our brains are as good as they have ever been, but if we fill them with misinformation we will inevitably draw wrong conclusions.

The solution? Somehow, as Leonard Read tells us, we must develop an elite, an aristocracy of morally and intellectually sound thinkers who can capture the attention of the youth and turn it to truth and integrity. Ideas certainly have consequences—when they are assimilated into the minds of thinkers, and translated into appropriate action.

IDEAS ON LIBERTY

Leo N. Tolstoy

ONE FREE MAN will say with truth what he thinks and feels amongst thousands of men who by their acts and words attest exactly the opposite. It would seem that he who sincerely expressed his thought must remain alone, whereas it generally happens that everyone else, or the majority at least, have been thinking and feeling the same things but without expressing them.

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Clarence B. Carson

THE RELICS OF INTERVENTION:

4. New Deal Collective Planning

RELICS of the New Deal are still very much a part of the political machinery under which we live. The bent to inflation, which is still in the process of destroying our money, was firmly established during the New Deal. The notion that it is the business of government to support and look after a goodly portion of the population was articulated in particular programs, many of which are still in operation. The practice of government attempting to manage the economy is a relic of New Deal efforts to institute a planned economy. The preference for the collective over the individual is around in hundreds of government prescriptions to this day. They are relics of enthusiasms of a bygone era. For none of them is this more clearly the case than for collective planning.

At this remove in time from the early days of the New Deal, it is difficult to recapture, even in imagination, the heady enthusiasm among a goodly number of intellectuals for a governmentally planned economy. So far as can now be told, they believed that a bright new day was dawning, that national planning would result in an organically integrated economy in which everyone would joyfully work for the common good, and that American society would be freed at last from those antagonisms arising, as General Hugh Johnson put it, from "the murderous doctrine of savage and wolfish individualism, looking to dog-eat-dog and

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devil take the hindmost."[1] That economic planning would arouse its own antagonisms, that it would have to be imposed by government, and that its tendency was toward totalitarianism was something that either these intellectuals did not know or would not accept.

An Exciting Experiment

A part of this enthusiasm for collective planning can be accounted for by the fact that it had not yet been discredited by recent experience. Fascist Italy was still in the formative years in its experiments with syndicalism when the New Deal was being shaped. The Soviet Union was just finishing its first five-year plan, and Stalin applying the brakes by proclaiming that those imposing it were "dizzy with success." The failure of "democratic socialism" in England was still fifteen years in the future.

But to look at it that way is to back into an explanation of New Deal enthusiasm for a planned economy. National planning was in the wind at the time. More broadly, it constituted much of the intellectual weather for most radical and reformist intellectuals. The main sources of this enthusiasm were in Europe. As I have pointed out in an earlier article, Theodore Roosevelt's New Nationalism and mobilization of the economy during World War I provided some of the impetus toward the planned economy. But Italian Fascism and Soviet Communism were the models which excited the imagination of many intellectuals as the 1920s gave way to the 1930s. In this, Americans were following the lead of European intellectuals. One historian goes so far as to say "that many of the best minds of the West saw fascism and communism as the only real alternatives of their times."[2] Those who took their orientation from Moscow were taught, of course, that those countries which persisted in clinging to capitalism would inevitably become fascist.

There is not much direct evidence, not much known to me, anyway, that any considerable number of Americans were enamored with Italian Fascism. An intellectual historian of Europe has said that "Mussolini was widely admired even in the democracies. Had he not produced an order in his nation which the democracies were apparently incapable of producing? From Churchill (who expressed his admiration as late as 1938) to those who praised the Duce for making trains run on time, the wave of admiration accepted fascism as an alternative to ideologies which proclaimed a more thorough social and economic revolution."[3] If that was the case in the United States, the admirers were mostly of the closet variety. An exception that tends to prove the rule was Lincoln Steffens who had, by the 1930s,

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grown old in the socialist cause and could openly praise Mussolini in his *Autobiography*.[4]

Even so, there were overtones of Italian Fascism in the early New Deal, especially in the National Recovery Administration, the Agricultural Adjustment Administration, and the semi-military Civilian Conservation Corps. There were the appeals to national unity, the national planning motif, the military displays, on "NRA Days," the parades, the organization of farmers, workers, and industries into groups, and so on. Some of the New Dealers, at least, were aware of parallels but tried to avoid calling attention to the fact. For example, Rexford G. Tugwell notes that Roosevelt did not want mention made of the parallel between Mussolini's youth army working on rural projects when he set up the Civilian Conservation Corps.[5] When General Hugh Johnson reviewed the day long "NRA Day" parade in New York City, he says that he took care not to raise his arm lest it be interpreted as a Fascist salute. That did not keep a photograph from being published, however, which apparently had caught him in the stance. Johnson surmised that it must have been someone else's arm.[6]

But it was Soviet Communism which kindled the enthusiasm for many American intellectuals for collective planning. One historian who has explored some of these relationships in a book has a chapter entitled, "Soviet Russia: Lodestone of the American Liberal."[7] Another says that "The whole conception of a 'social experiment,' the whole notion of planned human intervention into social processes to raise the welfare of the people, had become linked in the minds of America's intellectual and social leaders with the practice of the Soviet Union." This was accomplished mainly, he says, by articles and books written by some of the "several hundreds of travelers to the Soviet Union" in the 1920s.[8] Eugene Lyons said, "The fact is that American liberals were hopelessly dazzled by the idea of 'planning'. . . . Nearly every college professor, poet, social worker, engineer or schoolboy who returned from Russia brought the stereotyped formulas and statistical patterns to swell the shiny mountain of self-deception. The more articulate wrote books. Almost as many books on the 'Soviet experiment' were published in 1931 as in the preceding thirteen years."[9]

The Russian Model

Among these travelers to the Soviet Union during this period were John Dewey, Rexford G. Tugwell, Paul Douglas, Stuart Chase, Jane Addams, Robert M. LaFollette, Maxwell S. Stewart, George Soule, Edmund Wilson, and many, many others. Among the abundant litera-

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ture favoring economic planning, much of it written by people who had traveled to the Soviet Union, here is a sampling of titles from the period: John Dewey, *Impressions of Soviet Russia* (1929), Sherwood Eddy, *The Challenge of Russia* (1931), George S. Counts, *The Soviet Challenge to America* (1931), Bruce Bliven, "Russia Marches Up a Mountain," *New Republic* (1931), Charles A. Beard, "The Rationality of Planned Economy," in *America Faces the Future* (1932), Rexford G. Tugwell, "The Principle of Planning and the Institution of Laissez-Faire," *American Economic Review* (1932), Stuart Chase, *A New Deal* (1932), Chester Davis, "Toward Planned Harvests," *Review of Reviews* (1933), and Maxwell S. Stewart, "Where Everyone Has a Job," *Survey Graphic* (1931).

The impact of Soviet planning on American thinkers, many of whom influenced the New Deal, may come out even clearer from a few quotations. The New York *Times* declared that Stalin's first Five-Year Plan was the "most extraordinary enterprise in the economic history of the world."[10] Stuart Chase proclaimed that it was "exciting, stimulating, challenging."[11] John Dewey said of the Soviet undertaking, "In some respects, it is already a searching spiritual challenge as it is an economic challenge to coordinate and plan."[12] "Why," cried Stuart Chase, "should Russians have all the fun in remaking a world."[13] George Soule said, "We could not assimilate the hard dogmas and terminology of Marxism . . ., but we were irresistibly attracted by the idea of planned use of modern industrial technique."

Advisers to Roosevelt

The New Deal was well equipped with enthusiasts for collective planning from the outset. Rexford G. Tugwell spent much time during 1932 with Roosevelt, and, whenever he could make an opportunity to do so, worked to convince him of the necessity for planning. After Roosevelt's nomination, Tugwell sent him a memorandum in which he admonished the future President to pursue planning, saying, in part: "It is not proposed to have the government run industry; it is proposed to have government furnish the requisite leadership; protect our resources; arrange for national balance; secure its citizens' access to goods, employment and security; and rise to the challenge of planning that concert of interests of which I have spoken before."[14]

By the time he was inaugurated, Roosevelt had managed to attract a goodly number of people to the government, to join others already there, who were eager to initiate planning. Henry A. Wallace, Secretary of Agriculture, expressed his desire for a new era in mystic terms to Roosevelt. "I feel for a short time yet," he

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said, "that we must deal with the . . . 'flameless ones' who with one last dying gasp will strive to re-animate their dying giant 'Capitalism.' Mr. President, you can be the 'flaming one,' the one with an ever upward-surging spirit to lead us into the time when the children of men can sing again."[15]

Much more prosaically, Senator Robert Wagner of New York said, while urging the passage of the National Industrial Recovery Act: "I do not think we will ever have industry in order until we have nationally planned economy."[16] Donald Richberg, who eventually replaced General Hugh Johnson as head of NRA, told a Senate committee that "A nationally planned economy is the only salvation of our present situation and the only hope for the future."[17] Raymond Moley, a speech writer for Roosevelt, declared that what was needed was "a policy of cooperative business-government planning."[18] Jerome Frank, general counsel in the Agriculture Department, held that "Just as America took an important step forward when it rejected political anarchy and integrated this continent into one nation, so it needs now to press forward to a deliberate economic integration."[19]

The NRA and the AAA

The two most direct and extensive New Deal experiments in collective planning were those made under the National Industrial Recovery Act and the Agricultural Adjustment Act. Both were passed during the Hundred Days of the emergency session of Congress which met on March 9, 1933 and adjourned on June 16. Before discussing these, however, there was another act passed during this session which may make clearer the animus behind national planning, why it was considered necessary, and what view of economics sustained it. It was the act creating the Tennessee Valley Authority, an act authorizing the creation of a whole series of dams and locks on the Tennessee River.

There are two things that are especially strange about TVA. The first is that the act should have been passed in the midst of a special session of Congress called to deal with an emergency. Even if it be granted that TVA might eventually bring benefits to a region, it is difficult to see its relevance to dealing with an emergency. The building of dams and locks on a mighty river is not something done in weeks or months but in years. Nor is it at all clear that the most obvious products visualized, electricity, water transport, and fertilizers would be of such great benefit, even when they came. Fertilizer could be bought less expensively elsewhere; the capacity to produce more electricity than was being sold already existed, according to private power companies; and

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river transport had been largely displaced. The second strange thing is that government ownership of TVA became sacrosanct, as those few national politicians who have expressed themselves in favor of divestment discovered, to their sorrow usually. Indeed, no New Deal program has ever been so secure from political criticism, unless Social Security might possibly be.

The TVA Idea

TVA represents something other than what it is as an engineering feat or its economic value. It is a symbol. Therein lies the main explanation for its having been undertaken so expeditiously as well as for its treatment as a sacred object. It is a symbol of government planning. Arthur E. Morgan, the first chairman of the board set up to govern TVA, expressed the symbolic purpose forthrightly. He said, "The TVA is not primarily a dam-building job, a fertilizer job or power-transmission job." It is an example of man's "efforts to bring order out of chaos." Or, as Arthur Schlesinger summarized his belief, TVA "was an experiment in social reconstruction. . . ."[20] Whether any New Dealer ever formulated the ways in which TVA symbolized government planning, I do not know, but what follows covers some of the ways it must.

In the first place, the Tennessee River, as it was in 1933, is an apt symbol of the way New Dealers thought of a free economy. The sources of the Tennessee are in the mountains of Tennessee, North Carolina and Virginia. It is formed by the joining of the Holston and Clinch rivers at Knoxville. From there it flows south to Chattanooga, thence southwestward to Guntersville, Alabama, then northwestward through Alabama into Mississippi, then northward back through Tennessee, through the tip of Kentucky to Paducah, where it empties into the Ohio. It is approximately 650 miles long. In that whole length, there was only one dam, of consequence, in 1933, the one at Muscle Shoals, Alabama. It was, so to speak, largely in a "state of nature," wild, and untamed. For much of its length it was unnavigable. When the snows melted in the mountains and the spring rains came, it rampaged through cities, flooded the low lands, and washed minerals and topsoil away. In the summer and fall it dwindled so that it would not be deep enough in places for navigation. Most of the vast force of its waters was wasted, and its navigational uses undeveloped.

That is much the way New Dealers thought of a free economy. It tended to get out of balance perpetually, much as a river does in wet and dry seasons. As the river floods, so there is over-production in a free economy. Demand does not keep pace with supply. There are booms and

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busts. There is the waste of unemployment. Goods go unsold while some people are in need.

In the second place, TVA symbolized the New Deal solution to the problem. The solution was to use the power of government to control the river, to build dams, locks, and lakes, to stop the flooding by filling the lakes in the wet season and keeping a portion of the waters in dry season so that the level would be higher. The force of the river would be harnessed for electricity. Channels would be deepened and locks would be used to raise boats so that they could go up or downstream on waters that were level. Just so, the New Dealers expected to even out and balance the economy by planning.

In the third place, the results of planning in the TVA were visible and concrete, by contrast with much of industrial planning, for example. So far as TVA was a symbol of government planning, it was a symbol that could be looked at, touched, and heard. The locks and dams can be seen and touched. The water rushing down the spillways can be heard. The lakes are great bodies of water that can be seen from highways or bridges, or traveled on by boat.

The Analogy Breaks Down

The analogy by which the TVA might be a symbol of collective planning generally does not stand up under critical examination, of course. Men are not drops of water whose activities may be stopped by government dams and whose energies may be impounded for later use. They are animate, sensate, and rational beings with minds and wills of their own. The employment of their energies is self-directed and guided by their own desires and purposes. Nor is an economy analogous to a flowing stream, except in the loosest and most imprecise sense. Economy is that which results from the decisions of people in producing, buying, selling, and consuming. Unless force intervene to prevent it, an economy will tend always toward balance through the continual adjustments that go on.

The New Dealers did not accept this view of the matter. They professed to believe that the economy was out of balance and that this could only be corrected by planning and the application of force. Neither the National Recovery Administration (NRA) nor the Agricultural Adjustment Administration (AAA) may have considered men as if they were drops of water, though they did contain their energies as if by dam, and minorities in elective decisions were often given short shrift.

The most immediate purpose of the NRA and AAA was to raise prices, especially of farm products, and wages of industrial workers. The main device for doing this was the reduction of production, though

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monetary inflation was supposed to provide the means for it to occur. The NRA operated through industrial codes. Ideally, these codes were supposed to be drawn up by representatives of companies and workers. Thus, there would be a cotton textile code, a steel code, a shoemakers code, a farm equipment code, and so on. But the matter was not left entirely to these representatives. The President of the United States was authorized to alter the codes, if he saw fit, or to provide codes if those within an industry failed to do so.

To Restrain Competition

These NRA codes were typically concerned with restricting competition within an industry, reducing hours of labor, and raising prices and wages. Employers were usually forbidden to employ children under 16 years old. A minimum wage throughout the industry and a work week of 40 hours were ordinarily specified. Further, the Cotton Textile Code, for example, forbade employers to use "productive machinery in the cotton textile industry for more than two shifts of 40 hours per week."[21] Planning was supposed to be accomplished by the companies and workers acting in concert with government. Nor was it simply major industries that were governed by codes initially; any and every sort of undertaking was included. Thus, "Code 450 regulated the Dog Food Industry, Code 427 the Curled Hair Manufacturing Industry and Horse Hair Dressing Industry, and Code 262 the Shoulder Pad Manufacturing Industry. In New York, I. 'Izzy' Herk, executive secretary of Code 348, brought order to the Burlesque Theatrical Industry by insisting that no production could feature more than four strips."[22] Apparently, they did not restrict the number of garments to be removed.

The AAA was expected to do for agriculture much the same sort of thing that NRA would for industry, only more. Farmers were reckoned to be in much worse condition than manufacturers and industrial workers. The first task with them, according to the planners, was to bring farm income up to a parity (as it was called) with industrial income. The years 1909–1914 were chosen as a base for most farm staple products, and the aim was to raise farm prices to a level that would give them an income equivalent to the ratio between farm and industry that prevailed in the base period. The main device for accomplishing this was reduction of production of staples. So dramatic was the need for reduction, New Dealers thought, that a considerable portion of the 1933 cotton crop was plowed up and many small pigs put to death. Thereafter, farmers were induced to plant less by government subsidies for those who "cooperated." Under the first AAA

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(1933–1936), the money to pay for the various benefits paid to farmers came from a tax on processors. Many farmers had long believed, of course, that the middlemen got the profits from their endeavors. The New Deal gave this spurious notion legal standing by levying the tax.

Collective Performance of Producers and Government

The "collective" aspect of this planning had two facets. One was the participation of farmers, industrialists, and workers in the programs. Farmers voted on such matters as crop controls, and there were local committees to oversee participation in the programs. Industrialists and workers, as already noted, had representatives in drawing codes under the NRA. The other facet was in government participation. Here, New Dealers emphasized the democratic character of the government and, through a kind of collectivized democracy concept, even the activity of government could be conceived as collective. Most of this was window dressing. Government agencies bought compliances where they could and otherwise forced it upon many of those who would not otherwise have participated. Herbert Hoover observed rather testily, in 1934, that those in power had assumed the authority "To enforce most of these powers where they affect the individual by fine and imprisonment through prosecution in the courts, with a further reserved authority in many trades through license to deprive men of their business and livelihood without any appeal to the courts."[23]

That the NRA was a failure in collective planning is generally conceded. It could be argued that it never had a sufficient trial. After all, the NRA only got under way in mid-1933, and the Supreme Court declared its central authorizing provisions unconstitutional in 1935. Chief Justice Hughes, speaking for most of the court, declared that "We think that the code-making authority thus conferred is an unconstitutional delegation of legislative power."[24] But within the administration the usefulness of the code-making approach was being sharply questioned before the Supreme Court decision.[25] The hassle of getting the codes made and enforcing them was exceedingly troublesome from beginning to end. The NRA was in retreat before the court decision, and no effort was ever made to revive collective planning by the industries themselves.

Actually, the AAA, too, was declared unconstitutional, or at least crucial provisions of the act bringing it into being were. The challenge of the processing tax came before the Supreme Court in 1936. The court affirmed the judgment of an appeals court that the government could not collect the tax. Many books have

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treated the decision as if it merely nullified the tax. But the court opinion made clear that it was not the tax itself but the end for which it was used that was contrary to the Constitution. Justice Roberts, speaking for the majority of the court, declared that "powers not granted are prohibited. None to regulate agricultural production is given, and therefore legislation by Congress for that purpose is forbidden." Further, he pointed out that "appropriations and expenditures under contracts for proper governmental purposes cannot justify contracts which are not within federal power. And contracts for the reduction of acreage and the control of production are outside the range of that power."[26] The President and Congress were undaunted, however, and major provisions of the act were reenacted in 1936, and the AAA itself was born again in 1938. This last followed upon a counterattack on the court in 1937.

Their constitutionality and demise or continuation aside, however, both the NRA and AAA failed in their missions. They made no significant contributions—none at all but brief and temporary ones—to ending the depression. Indeed, they only helped to prolong it. Not only did they try to reduce production but also to freeze it in its recent pattern. New enterprises in old industries were discouraged. There were attempts to make employers keep the same number of employees and farm landlords to keep the same number of tenants. The Agricultural Adjustment Act of 1933 provided that farmers who made proper reductions in cotton acreage should not increase "commercial fertilization per acre." It also declared that cotton producers should not "use the land taken out of cotton production for the production for sale . . . of any other nationally produced agricultural commodity. . . ."[27]

Counterproductive Measures

The thrust of these programs was in the opposite direction from what was needed. If people have material needs, are unemployed or underemployed, the solution for them is either to produce for themselves what they need or produce for sale in the market enough of what is wanted to be able to buy what they need. These things require more, not less, production and changes in production activities, not the freezing of them into patterns of the past. That is not to say that government would have had greater success in planning increased production. Some things were already being produced in greater quantities than could be profitably produced for the market. Any general effort to solve the problem was doomed to failure, for the problem was one of individuals, families, and other producing units. Only they could solve it.

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"Planning" vs. the Free Market

PLANNING always involves *compulsion.* This may be disguised in various ways. The government Planners will, of course, try to persuade people that the Master Plan has been drawn up for their own good, and that the only persons who are going to be coerced are those whose plans are "not in the public interest."

The Planners will say, in the newly fashionable phraseology, that their plans are not "imperative," but merely "indicative." They will make a great parade of "democracy," freedom, cooperation, and noncompulsion by "consulting all groups"—"Labor," "Industry," the Government, even "Consumers Representatives"—in drawing up the Master Plan and the specific "goals" or "targets." Of course, if they could really succeed in giving everybody his proportionate weight and voice and freedom of choice, if everybody were allowed to pursue the plan of production or consumption of specific goods and services that he had intended to pursue or would have pursued anyway, then the whole Plan would be useless and pointless, a complete waste of energy and time.

HENRY HAZLITT

Although the NRA was abandoned and the AAA was modified (and many particular programs reduced or abandoned over the years), they left most important residues which are still very much with us. The most important relic is the idea that government is responsible for the functioning of the economy. This undergirds the notion, which has surfaced in hundreds of ways since the 1930s, that government can take action and plan so as to make the economy work well. It surfaced in the idea that government can manipulate the currency to prevent depressions and insure prosperity, in the Employment Act of 1946 in which the government assumed the responsibility for following policies to assure full employment, in the Council of Economic Advisers which Presidents have, in controls over wages and prices, in attempts to maintain or increase purchasing power, in land use programs, in government empowerment of labor unions, in the still existent crop subsidy programs, and so on and on. The idea of collective planning is present

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in the government mandated hearings which must be held before communities make changes or institute programs. Government participation in collective planning is a major ingredient in the environmental protection rules and regulations. Indeed, it would be an encyclopedic effort to explore all the ways that government is today involved in economic planning for Americans.

A Discredited Relic

Government economic planning is a relic. It is a relic of the New Deal. It is a relic of enthusiasms which go back to the 1920s, to World War I, to Italian Fascism, to Soviet Communism, and to World War II economic controls. It is a relic of fascism which was on its way to being discredited and was already in ill repute before the New Deal programs were enacted. It is a relic of national socialism, which failed in Britain and led to massive oppression in the desperate effort to make it work in the Soviet Union. It has been discredited in theory and practice.

Next: *New Deal Welfarism.*

—FOOTNOTES—

[1]Quoted in Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin, 1959), p. 88.

[2]George L. Mosse, *The Culture of Western Europe* (Chicago: Rand McNally, 1961), p. 378.

[3]*Ibid.*, p. 353.

[4]See Schlesinger, *op. cit.*, pp. 142, 208.

[5]Rexford G. Tugwell, *The Brains Trust* (New York: Viking, 1968), p. 71.

[6]Hugh S. Johnson, "NRA Ballyhoo" in William E. Leuchtenburg, ed., *The New Deal* (Columbia: University of South Carolina Press, 1968), p. 47.

[7]Frank A. Warren, III, *Liberals and Communism* (Bloomington: Indiana University Press, 1966), ch. 4.

[8]Lewis S. Feuer, "American Travelers to the Soviet Union," *American Quarterly* (Summer, 1962).

[9]Eugene Lyons, *The Red Decade* (New Rochelle, N. Y.: Arlington House, 1970, originally pub. 1941), pp. 103–04.

[10]Quoted in Warren, *op. cit.*, p. 70.

[11]*Ibid.*, p. 66.

[12]Quoted in Lyons, *op. cit.*, p. 107.

[13]Quoted in Warren, *op. cit.*, p. 59.

[14]Tugwell, *op. cit.*, p. 527.

[15]Quoted in Schlesinger, *op. cit.*, pp. 32–33.

[16]William E. Leuchtenburg, *Franklin D. Roosevelt and the New Deal* (New York: Harper & Row, 1963), p. 58.

[17]Quoted in Schlesinger, *op. cit.*, p. 93.

[18]*Ibid.*

[19]*Ibid.*, p. 94.

[20]*Ibid.*, p. 327.

[21]Henry S. Commager, ed., *Documents of American History* (New York: Appleton-Century-Crofts, 1962), vol. II, p. 277.

[22]Leuchtenburg, *Franklin D. Roosevelt and the New Deal*, p. 69.

[23]Herbert Hoover, *The Challenge to Liberty* (Rockford, Ill.: The Herbert Hoover Presidential Library Association, 1971, originally pub. 1934), p. 78.

[24]Commager, *op. cit.*, p. 281.

[25]See Schlesinger, *op. cit.*, pp. 161–62.

[26]Commager, *op. cit.*, pp. 250–51.

[27]*Ibid.*, p. 243.

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Clarence Manion

Legalized Immorality

IT must be remembered that ninety-five per cent of the peace, order and welfare existing in human society is always produced by the conscientious practice of man-to-man justice and person-to-person charity. When any part of this important domain of personal virtue is transferred to government, that part is automatically released from the restraints of morality and put into the area of conscience-less coercion. The field of personal responsibility is thus reduced at the same time and to the same extent that the boundaries of irresponsibility are enlarged.

Government cannot manage these fields of human welfare with the justice, economy and effectiveness that is possible when these same fields are the direct responsibility of morally sensitive human beings. This loss of justice, economy and effectiveness is increased in the proportion that such governmental management is centralized. . . .

Government cannot make men good; neither can it make them prosperous and happy. The evils in society are directly traceable to the vices of individual human beings. At

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its best government may simply attack the secondary manifestations of these vices. Their primary manifestations are found in the pride, covetousness, lust, envy, sloth and plain incompetency of individual people. When government goes far beyond this simple duty and deploys its forces along a broad complicated front, under a unified command, it invariably propagates the very evils that it is designed to reduce.

In the sweet name of "human welfare" such a government begins to do things that would be gravely offensive if done by individual citizens. The government is urged to follow this course by people who consciously or subconsciously seek an impersonal outlet for the "primaries" of human weakness. An outlet in other words which will enable them to escape the moral responsibility that would be involved in their personal commission of these sins. As a convenience to this popular attitude we are assured that "government should do for the people what the people are unable to do for themselves." This is an extremely dangerous definition of the purpose of government. It is radically different from the purpose stated in the Declaration of Independence; nevertheless it is now widely accepted as correct.

Here is one example of centralized governmental operation: Paul wants some of Peter's property. For moral as well as legal reasons, Paul is unable personally to accomplish this desire. Paul therefore persuades the government to tax Peter in order to provide funds with which the government pays Paul a "subsidy." Paul now has what he wanted. His conscience is clear and he has proceeded "according to law." Who could ask for more?—why, Paul, of course, and at the very next opportunity. There is nothing to stop him now *except the eventual exhaustion of Peter's resources.*

The fact that there are millions of Pauls and Peters involved in such transactions does not change their essential and common characteristic. The Pauls have simply engaged the government "to do for them (the people) that which they are unable to do for themselves." Had the Pauls done this individually and directly without the help of the government, each of them would have been subject to fine and imprisonment. Furthermore, ninety-five per cent of the Pauls would have refused to do this job because the moral conscience of each Paul would have hurt him if he did. However, where government does it for them, there is no prosecution and no pain in anybody's conscience. This encourages the unfortunate impression that by using the ballot instead of a blackjack we may take whatever we please to take from our neighbor's store of rights and immunities.

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John Semmens

TAX EXPENDITURES

STIFLING, oppressive, and meddlesome—these are the words which come readily to mind when one is forced to characterize the role modern government plays in the U.S. economy. Bureaucrats, big spenders, and neoliberals consider this a bad rap. The government can play a creative role in our society, they insist.

In one particular field of endeavor they may well be right. Interventionistic government and its apologists have rarely failed to exercise the utmost creativity in devising misleading terminology to disguise government invasion of individual rights. *Progressive* taxation is the name given to a tax structure that penalizes progress by imposing high marginal tax rates on highly productive individuals. Social *justice* is the phrase used to justify robbing some people in order to give money to others.

While the invention of such classic abuses of the language as the aforementioned is a relatively infrequent event, it is scarce grounds for encouragement. The invention of more specialized and esoteric terms should not be ignored. The up and coming phrase in this regard is the "tax expenditure."

From its obscure beginnings in the Congressional Budget Act of 1974, the phrase "tax expenditure" has risen to become part of the sophisticated jargon of public policy debate. One might be expected to ask: "What is a 'tax expenditure'?" As the Congressional Budget Office (CBO) sees it, a "tax expenditure" is the revenue the government loses by not taxing designated income-producing activities to the full extent under the normal tax structure. An example of a "tax expenditure" is the recently

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passed reduction of the marriage penalty that occurs under the existing tax code when both spouses earn an income.

The CBO attempts to define what it calls the "basic" tax structure. The CBO then uses this basic tax structure as the norm from which "tax expenditures" are "disbursed." Their argument is unconvincing. The distinction between basic and non-basic aspects of the tax code is arbitrary. The CBO's own example on the marriage penalty reduction illustrates the arbitrariness of the tax code. If the marriage penalty had been abolished in its entirety, the lost revenue would not have been classified as a "tax expenditure."

The lack of clarity as to what is or isn't part of the basic tax structure lends a great deal of credence to the charge that the whole notion of "tax expenditures" is merely an underhanded attempt on the part of the government to lay claim to *all* income and property. Such a claim would not be without precedent. The government has been known to summarily seize and sell an individual's home for minor arrears in property taxes. Further, under the law of eminent domain, the government reserves to itself the right to take private property for public purposes.

Examination of the use and explanation of the phrase "tax expenditures" indicates that, at best, its proponents do not rebut the charges of its critics: the phrase does imply that the government has a rightful claim on all income and property produced within its geographic boundaries. For example, the size of the "tax expenditure budget" is directly related to the basic rate of taxation. If the normal tax rate goes up, the "tax expenditure budget" automatically increases. This occurs because the so-called normal tax rate is deemed a true measure of how much of a person's income rightly belongs to the government.

The Impact of Inflation

The fact that inflation steadily pushes people into higher tax brackets very conveniently also increases the normal tax rate. Thus, by merely mismanaging the money supply, the government creates the inflation, which inexorably boosts the normal tax rates, and increases its so-called legitimate share of the incomes of all its taxpayers. Naturally, the "tax expenditure budget" balloons along with the bloated tax rate.

All of this is grist for the mill of "responsible" politicians who only want to restrain federal spending. If budget deficits are forecast, then government spending must be reduced. The option of reducing "tax expenditures" is, of course, very appealing. In fact, it is apt to be argued that reducing "tax expenditures" is the most potent way to attack the

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deficit, because each reduction in spending is an automatic increase in revenues. Neither cuts in actual spending nor increases in tax rates can accomplish two objectives in one act.

The simple truth of the matter is that the entire concept of "tax expenditures" is a fraud. The phrase is expressly intended to confuse the distinction between private property and government's claims against this property. Income in a free enterprise economy is produced by productive effort in meeting the needs of consumers. Government plays a limited constructive role in maintaining the legal framework within which productive enterprise can function. It can legitimately lay claim to only the smallest fraction of income necessary to support this legal framework.

The tip-off that those who use the "tax expenditure" terminology do, in fact, harbor notions that the government has a right to all income and property is in the various explanations of the ways in which tax policy can be used to allocate *federal* resources. The CBO describes the purpose of the "tax expenditure budget" as a means of assisting government economic planning: "By accounting for the *federal* resources devoted to specific purposes through the tax code, it permits consideration of alternative uses of those resources."

The implication is clear. Income or property that is not taken by the government is still considered a *federal* resource. The protest that this is income or property that would have been taken under normal tax rates anyway is small comfort. As we have seen, the normal tax rate is whatever the government says it is.

Whose Property Is It?

There is some degree of lamentation that the allocation of government resources via the tax code is inefficient. Government economists point out that using "tax expenditures" to allocate government resources is limited in that it can only channel money to businesses or individuals that would otherwise pay taxes. "Tax expenditures" can't be used to subsidize those who don't pay taxes. This would seem to refute the notion that "tax expenditures" disburse federal resources. It would appear to establish the point that these resources are, in reality, the property of those who produce them.

The CBO's proposed remedy for the government's inability to make "tax expenditures" on non-taxpaying businesses or individuals is the "refundable tax credit." This remarkable distortion of language pushes the case of total government control over all income and property. The "refundable tax credit" has nothing to do with refunding anything. Most people understand refund to mean a return of money paid out. This "re-

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fundable tax credit" would provide money to persons who paid no tax. The whole point of this device is to overcome the fact that there is no way the government is able to "not collect a tax" from someone who produces no income.

The degeneration of thought and meaning reaches its climax in the notion that tax cuts have to be financed. One must shudder to hear that the government must find a way to finance the tax cuts enacted in the 1981 legislative session. If governments are created by the people, rather than the other way around, then it is clear that men finance the government, rather than the other way around. Taxes are the vehicle by which the people finance the government. If taxes are cut, this merely means that the people are reducing government's revenue. It does not mean that the government is financing the people. The statement that the government must find ways to finance a lower level of taxation represents, at best, confused thinking.

Confused or worse, this thinking inverts reality and contradicts the American tradition that the role of government is the protection of its citizens' rights. Protection of their right to the property of their own income is one of the traditional obligations of the U.S. Government. This role cannot be performed if the nature of the relationship between the individual, the government, and income is subverted by concepts like "tax expenditures."

Terms of Convenience

Perhaps the route to fallacious concepts was paved by terms of convenience like the "national income" or "income distribution." Sloppy thought processes can convert these terms of convenience into dangerous misconceptions. There is no such thing as a national income. Nothing like income distribution ever occurs. Individuals and businesses earn incomes. The government doesn't distribute them. This truth may be unpalatable to those of collectivist bent. They'd like to imagine that the government is a creative, nurturing force. To sustain such fantasies, new concepts of reality must be invented.

Unable to progress on its merits, collectivism is forced to rely on linguistic perversions. The term "tax expenditures" is a classic illustration of linguistic perversion. While the concept of "tax expenditures" is intellectually ludicrous, it is not thereby rendered harmless. Dictatorships that are called "people's republics" and "liberation armies" run by communists are ludicrous concepts, but they are not harmless. We acquiesce in the use of terms like "tax expenditures" at our own peril. Such language cannot be tolerated if we are to remain free.

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George Reisman

Ludwig von Mises DEFENDER OF CAPITALISM

SEPTEMBER 29, 1981, marked the hundredth anniversary of the birth of Ludwig von Mises, economist and social philosopher, who passed away in 1973. Mises was my teacher and mentor and the source or inspiration for most of what I know and consider to be important and worthwhile in these fields—of what enables me to understand the events shaping the world in which we live. I believe that he deserves to occupy a major place in the intellectual history of the twentieth century.

Mises is important because his teachings are necessary to the preservation of material civilization. As he showed, the base of material civilization is the division of labor. Without the higher productivity of labor made possible by the division of labor, the great majority of mankind would simply die of starvation. The existence and successful functioning of the division of labor, however, vitally depends on the institutions of a *capitalist* society—that is, on limited government and economic freedom, private ownership of land and all other property, exchange and money, saving and investment, economic inequality and economic competition, and the profit motive—institutions everywhere under attack for several generations.

When Mises appeared on the scene, Marxism and the other socialist sects enjoyed a virtual intellectual monopoly. Major flaws and inconsistencies in the writings of Smith and Ricardo and their followers enabled the socialists to claim classical economics as their actual ally. The writings of Jevons and the earlier "Austrian"

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economists—Menger and Böhm-Bawerk—were insufficiently comprehensive to provide an effective counter to the socialists. Bastiat had tried to provide one, but died too soon, and probably lacked the necessary theoretical depth in any case.

Thus, when Mises appeared, there was virtually *no systematic opposition to socialism or defense of capitalism.* Quite literally, the intellectual ramparts of civilization were undefended.

What Mises undertook, which summarizes the essence of his greatness, was *to build an intellectual defense of capitalism and thus of civilization.*

The leading argument of the socialists was that the institutions of capitalism served the interests merely of a handful of rugged "exploiters" and "monopolists" and operated against the interests of the great majority of mankind, which socialism would serve. While the only answer others could give was to devise plans to take away somewhat less of the capitalists' wealth than the socialists were demanding, or to urge that property rights nevertheless be respected despite their incompatibility with most people's well-being, Mises challenged everyone's basic assumption. He showed that *capitalism operates to the material self-interests of all,* including the non-capitalists—the so-called proletarians. In a capitalist society, Mises showed, privately owned means of production serve *the market.* The physical beneficiaries of the factories and mills are all who buy their products. And, together with the incentive of profit and loss and the freedom of competition that it implies, the existence of private ownership ensures an ever-growing supply of products for all.

Thus, Mises showed to be absolute nonsense such cliches as "poverty causes communism." Not poverty, but poverty plus the mistaken belief that communism is the cure for poverty, causes communism. If the misguided revolutionaries of the backward countries and of impoverished slums understood economics, any desire they might have to fight poverty would make them advocates of capitalism.

No Basis for Economic Calculation

Socialism, Mises showed, in his greatest original contribution to economic thought, not only abolishes the incentive of profit and loss and the freedom of competition along with private ownership of the means of production, but makes economic calculation, economic coordination, and economic *planning* impossible, and therefore results in chaos. For socialism means the abolition of the price system and the intellectual division of labor; it means the concentration and centralization of all decision-making in the hands of one

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agency: the Central Planning Board or the Supreme Dictator.

Yet the planning of an economic system is beyond the power of any one consciousness: the number, variety and locations of the different factors of production, the various technological possibilities that are open to them, and the different possible permutations and combinations of what might be produced from them, are far beyond the power even of the greatest genius to keep in mind. Economic planning, Mises showed, requires the cooperation of all who participate in the economic system. It can exist only under capitalism, where, every day, businessmen plan on the basis of calculations of profit and loss; workers, on the basis of wages; and consumers, on the basis of the prices of consumers' goods.

Capitalist Planning

Mises' contributions to the debate between capitalism and socialism—the leading issue of modern times—are overwhelming. Before he wrote, people did not realize that capitalism *has* economic planning. They uncritically accepted the Marxian dogma that capitalism is an anarchy of production and that socialism represents rational economic planning. People were (and most still are) in the position of Molière's M. Jourdan, who never realized that what he was speaking all his life was prose.

For, living in a capitalist society, people are literally surrounded by economic planning, and yet do not realize that it exists. Every day, there are countless businessmen who are *planning* to expand or contract their firms, who are *planning* to introduce new products or discontinue old ones, *planning* to open new branches or close down existing ones, *planning* to change their methods of production or continue with their present methods, *planning* to build up their inventories or run them down, *planning* to hire additional workers or let some of their present ones go. And every day, there are countless workers *planning* to improve their skills, change their occupations or places of work, or to continue with things as they are; and consumers, *planning* to buy homes, cars, stereos, steak or hamburger, and how to use the goods they already have—for example, to drive to work or to take the train, instead.

Yet people deny the name planning to all this activity and reserve it for the feeble efforts of a handful of government officials, who, having prohibited the planning of everyone else, presume to substitute their knowledge and intelligence for the knowledge and intelligence of tens of millions.

Mises identified the existence of planning under capitalism, the fact that it is based on prices ("economic calculations"), and the fact that the

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prices serve to coordinate and harmonize the activities of all the millions of separate, independent planners.

He showed that each individual, in being concerned with earning a revenue or income and with limiting his expenses, is led to adjust his particular plans to the plans of all others. For example, the worker who decides to become an accountant rather than an artist, because he values the higher income to be made as an accountant, changes his career plan in response to the plans of others to purchase accounting services rather than paintings. The individual who decides that a house in a particular neighborhood is too expensive and who therefore gives up his plan to live in that neighborhood, is similarly engaged in a process of adjusting his plans to the plans of others; because what makes the house too expensive is the plans of others to buy it who are able and willing to pay more. And, above all, Mises showed, every business, in seeking to make profits and avoid losses, is led to plan its activities in a way that not only serves the plans of its own customers, but takes into account the plans of all other users of the same factors of production throughout the economic system.

Thus, Mises demonstrated that capitalism is an economic system rationally planned by the combined, self-interested efforts of all who participate in it. The failure of socialism, he showed, results from the fact that it represents not economic planning, but the *destruction* of economic planning, which exists only under capitalism and the price system.

A Harmony of Interests

Mises was not primarily anti-socialist. He was *pro*-capitalist. His opposition to socialism, and to all forms of government intervention, stemmed from his support for capitalism and from his underlying love of individual freedom and conviction that the self-interests of free men are harmonious—indeed, that one man's gain under capitalism is not only not another's loss, but is actually others' *gain*. Mises was a consistent champion of the self-made man, of the intellectual and business pioneer, whose activities are the source of progress for all mankind and who, he showed, can flourish only under capitalism.

Mises demonstrated that competition under capitalism is of an entirely different character than competition in the animal kingdom. It is not a competition for scarce, nature-given means of subsistence, but a competition in the positive creation of new and additional wealth, from which all gain. For example, the effect of the competition between farmers using horses and those using tractors was not that the former

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group died of starvation, but that everyone had more food and the income available to purchase additional quantities of other goods as well. This was true even of the farmers who "lost" the competition, as soon as they relocated in other areas of the economic system, who were enabled to expand precisely by virtue of the improvements in agriculture. Similarly, the effect of the automobile's supplanting the horse and buggy was to benefit even the former horsebreeders and blacksmiths, once they made the necessary relocations.

Comparative Advantage

In a major elaboration of Ricardo's Law of Comparative Advantage, Mises showed that there is room for all in the competition of capitalism, even those of the most modest abilities. Such people need only concentrate on the areas in which their relative productive inferiority is least. For example, an individual capable of being no more than a janitor does not have to fear the competition of the rest of society, almost all of whose members could be better janitors than he, if that is what they chose to be. Because however much better janitors other people might make, their advantage in other lines is even greater. And so long as the person of limited ability is willing to work for less as a janitor than other people can earn in other lines, he has nothing to worry about from their competition. He, in fact, outcompetes them for a job of janitor by being willing to accept a lower income than they. Mises showed that a harmony of interests prevails in this case, too. For the existence of the janitor enables more talented people to devote their time to more demanding tasks, while their existence enables him to obtain goods and services that would otherwise be altogether impossible for him to obtain.

On the basis of such facts, Mises argued against the possibility of inherent conflicts of interest among races and nations, as well as among individuals. For even if some races or nations were superior (or inferior) to others in every aspect of productive ability, mutual cooperation in the division of labor would still be advantageous to all. Thus, he showed that all doctrines alleging inherent conflicts rest on an ignorance of economics.

He argued with unanswerable logic that the economic causes of war are the result of government interference, in the form of trade and migration barriers, and that such interference restricting foreign economic relations is the product of other government interference, restricting domestic economic activity. For example, tariffs become necessary as a means of preventing unemployment, only because of the existence of minimum wage laws and pro-

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union legislation, which prevent the domestic labor force from meeting foreign competition by means of the acceptance of lower wages when necessary. He showed that the foundation of world peace is a policy of *laissez faire* both domestically and internationally.

In answer to the vicious and widely believed accusation of the Marxists that Nazism was an expression of capitalism, he showed, in addition to all of the above, that Nazism was actually a form of *socialism*. Any system characterized by price and wage controls, and thus by shortages and government controls over production and distribution, as was Nazism, is a system in which the government is the *de facto* owner of the means of production. Because, in such circumstances, the government decides not only the prices and wages charged and paid, but also what is to be produced, in what quantities, by what methods, and where it is to be sent. These are all the fundamental prerogatives of ownership. This identification of "socialism on the German pattern," as he called it, is of immense value in understanding the nature of present demands for price controls.

The Hazards of Intervention

Mises showed that all of the accusations made against capitalism were either altogether unfounded or should be directed against government intervention, which destroys the workings of capitalism. He was among the first to point out that the poverty of the early years of the Industrial Revolution was the heritage of all previous history—that it existed because the productivity of labor was still pitifully low; because scientists, inventors, businessmen, savers and investors could only step by step create the advances and accumulate the capital necessary to raise it. He showed that all the policies of so-called labor and social legislation were actually contrary to the interests of the masses of workers they were designed to help—that their effect was to cause unemployment, retard capital accumulation, and thus hold down the productivity of labor and the standard of living of all.

In a major original contribution to economic thought, he showed that *depressions* were the result of government-sponsored policies of credit expansion designed to lower the market rate of interest. Such policies, he showed, created large-scale malinvestments, which deprived the economic system of liquid capital and brought on credit contractions and thus depressions. Mises was a leading supporter of the gold standard and of *laissez faire* in banking, which, he believed, would virtually achieve a 100% reserve gold standard and thus make impossible both inflation and deflation.

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What I have written of Mises provides only the barest indication of the intellectual content that is to be found in his writings. He authored over a dozen volumes. And I cannot recall reading a single paragraph in any of them that did not contain one or more profound thoughts or observations. Even on the occasions when I found it necessary to disagree with him (for example, on his view that monopoly can exist under capitalism, his advocacy of the military draft, and certain aspects of his views on epistemology, the nature of value judgments, and the proper starting point for economics), I always found what he had to say to be extremely valuable and a powerful stimulus to my own thinking. I do not believe that anyone can claim to be really educated who has not absorbed a substantial measure of the immense wisdom present in his works.

Mises' two most important books are *Human Action* and *Socialism*, which best represent the breadth and depth of his thought. These are not for beginners, however. They should be preceded by some of Mises' popular writings, such as *Bureaucracy* and *Planning For Freedom*.

The Theory of Money and Credit, *Theory and History*, *Epistemological Problems of Economics*, and *The Ultimate Foundation of Economic Science* are more specialized works that should probably be read only after *Human Action*.

Mises' other popular writings in English include *Omnipotent Government*, *The Anti-Capitalistic Mentality*, *Liberalism*, *Critique of Interventionism*, *Economic Policy*, and *The Historical Setting of the Austrian School of Economics*. For anyone seriously interested in economics, social philosophy, or modern history, the entire list should be considered required reading.

The Courage of His Convictions

Mises must be judged not only as a remarkably brilliant thinker, but also as a remarkably courageous human being. He held the truth of his convictions above all else and was prepared to stand alone in their defense. He cared nothing for personal fame, position, or financial gain, if it meant having to purchase them at the sacrifice of principle. In his lifetime, he was shunned and ignored by the intellectual establishment, because the truth of his views and the sincerity and power with which he advanced them shattered the tissues of fallacies and lies on which most intellectuals then built, and even now continue to build, their professional careers.

It was my great privilege to have known Mises personally over a period of twenty years. I met him for the first time when I was sixteen years old. Because he recognized the seriousness of my interest in economics, he invited me to attend his

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graduate seminar at New York University, which I did almost every week thereafter for the next seven years, stopping only when the start of my own teaching career made it no longer possible for me to continue in regular attendance.

His seminar, like his writings, was characterized by the highest level of scholarship and erudition, and always by the most profound respect for ideas. Mises was never concerned with the personal motivation or character of an author, but only with the question of whether the man's ideas were true or false. In the same way, his personal manner was at all times highly respectful, reserved, and a source of friendly encouragement.

He constantly strove to bring out the best in his students. This, combined with his stress on the importance of knowing foreign languages, led in my own case to using some of my time in college to learn German and then to undertaking the translation of his *Epistemological Problems of Economics*—something that has always been one of my proudest accomplishments.

The Growth of Ideas

Today, Mises' ideas at long last appear to be gaining in influence. His teachings about the nature of socialism have been confirmed in the firsthand observations of honest news reporters with extensive experience in Soviet Russia, such as Robert Kaiser, Hedrick Smith, John Dornberg, and Henry Kamm. They are being confirmed by the actions of millions of angry workers in Poland.

Some of Mises' ideas are being propounded by the Nobel prizewinners F.A. Hayek (himself a former student of Mises) and Milton Friedman. They exert a major influence on the writings of Henry Hazlitt and the staff of the Foundation for Economic Education, as well as such prominent former students as Hans Sennholz. Mises' monetary theories permeate the pages of recent best-selling books on personal investments, such as those by Harry Browne and Jerome Smith. And last, but certainly not least, they appear to be exerting an important influence on President Reagan, who has acknowledged reading *Human Action* and has expressed his admiration for it.

Mises' books deserve to be in every college and university curriculum — not just in departments of economics, but also in departments of philosophy, history, government, sociology, law, business, journalism, education, and the humanities. He deserves to receive every token of recognition and memorial that our society can bestow. For as much as anyone in history, he labored to preserve it. If he is widely enough read, his labors may succeed in helping to save it.

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Glenn L. Pearson

How Socialism Affects Charity

THE economic consequences of socialism pale into insignificance alongside the moral consequences. It is infinitely more tragic that our government has presided over the moral decay of America than over its growing poverty. Of course, morality has not completely disappeared and total, abject poverty has not arrived. (We owe that to the remnants of a past that enjoyed a greater freedom.) But every government program based on redistribution of the wealth for social or economic improvement carries the seeds of moral and economic death.

One of the ways socialism (the use of government to solve social problems) adversely affects morality is in its destruction of the urge and ability to privately care for loved ones and neighbors. It can destroy this urge and ability by reducing the loftiness of soul which characterizes great people. That is, by relegating all its efforts to the satisfaction of the belly instead of to the freeing of the mind and soul, the government can lead a people downward instead of upward—down into selfish gratification of the body instead of upward into selfless gratification of spiritual needs.

A people which is blessed with many persons of lofty soul seem to obtain material prosperity as a sort of by-product of their pursuit of spiritual ends; whereas a people whose government has led them into a system which attempts, by political manipulation, to gratify all their material needs succeeds in so completely crushing the qualities on which prosperity is sustained that poverty persists and grows. Alexis de Tocqueville saw this:

> Whatever elevates, enlarges, and expands the soul, renders it more capable of succeeding in those very undertakings which concern it not. Whatever, on the other hand, enervates or lowers it, weakens it for all purposes, the chiefest as well as the least, and threatens to render it

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almost equally impotent for the one and for the other. Hence the soul must remain great and strong, though it were only to devote its strength and greatness from time to time to the service of the body. If men were ever to content themselves with material objects, it is probable that they would lose by degrees the art of producing them; and they would enjoy them in the end, like the brutes, without discernment and without improvement. (*Democracy in America,* Translated by Henry Reeve (New Rochelle, New York: Arlington House) Volume Two, Second Book, p. 157)

A specific example of how the government adversely affects spiritual qualities is in the difficulties it imposes on private charity through the IRS. Within certain limits a person may deduct donations to institutions that have been approved as legitimate charities; but the grim-faced bureaucrats who arbitrate deductions make it difficult for anyone who wants to help a destitute neighbor or relative. The regulations are many and difficult to surmount. The inevitable effects on souls are a deviousness that quenches honesty and a callousness that turns faces away from suffering. (After all, aren't the poor the responsibility of the government?) Those who run the IRS and the politicians who gave them their power seem to feel that they have a duty to siphon off most of our capability to practice private charity and then set up rules that will discourage the "wasting" (as they seem to see it) of funds on the truly needy whose shoulders we rub daily.

I am personally and painfully acquainted with a man who has carried a heavy family burden of this sort for years. He has a son who is marvelously gifted with musical talent. This son also was afflicted at age fifteen with an eye disease which was curable only by corneal transplants. Special contact lenses were the prescribed treatment for, hopefully, the first fifteen to twenty years. Then the only alternative to a lifetime of blindness was corneal transplants. Only the transplants became necessary much earlier than expected. The boy was in college, married and supporting himself. Then several years of economic and personal disaster ensued.

It is not my purpose to relate the bitter details, but only to recite some of the government policies involved. Suffice it to say that the father put out over $50,000 in doctor bills, hospital bills and family support during the times his son was incapacitated. Following is a partial list of adversities he encountered that directly or indirectly involve government interference in social and economic matters that should be none of government's business:

1. He got most of the money for his son by selling stock in a public company. (Of course, he had to sell more than $50,000 worth of stock because of the tax bite.) Due to var-

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ious activities of the Securities and Exchange Commission, this stock was in a slump when he sold it. So he got one-tenth as much as he could have a few months after he sold it. (He also could have done much better earlier than the time he sold it. The point is that the roller-coaster the stock had been on was caused, in this case, by SEC activities. The market activities had nothing to do with the value of the stock company. That didn't change. The honesty or dishonesty of the management didn't change. But the promotion of the company's stock by stock brokers changed as their perception of the SEC's approval changed.)

2. The son checked out all of the government agencies that were supposed to help in his type of personal and economic tragedy. He found that none would help him unless he lied to them in some way. Maybe others lie. But he places a high price on integrity. The father, on principle, did not seriously consider government help.

3. Due to IRS rules about capital gains taxes, the father had to pay capital gains on the entire proceeds from his stock sales. He did have a legal base in the stock; but it was his accountant's considered opinion that his records were not structured to prove it if a challenge ensued. So he reported the full proceeds without any deductions and paid the applicable tax.

4. During most of the years of his son's trials, the father could not claim the level of deductions he could have claimed if his son could have continued his college education. Once the schooling stopped, the only deduction the father could claim was the dependent exemptions for his son's wife and children, which was only a fraction of what they were costing him.

5. Except for that short period when his son was in school, the father could not claim any deductions for the huge hospital and doctor bills. This was because he could not claim his son as a dependent. His son had to file a separate tax return and his earnings were too low to take full advantage of the medical expenses.

6. The son never qualified for unemployment compensation at any time because his eye problem made him unavailable for employment. At the times he could see well enough to work, he earned too much through piano tunings and other employment that he picked up himself.

7. The father retired during all this. The stock money had run out; but he had various other sources of income. However, they all counted against the amount he could earn without having his social security check diminished. The result was that those benevolent bureaucrats that sit over retirement regulations have deducted sums from his social security checks and are about to dip

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even deeper. They got him coming and going because the money for which they are deducting penalties was money he spent on his son and his son's family. So, even though he did not have that extra income to live on himself, Social Security treated it that way.

But don't waste any tears on this man. He does not believe in public charity anyway. He will find a way to go on supporting himself honestly and legally.

The foregoing partial listing of how government agencies and policies adversely affected one man's life was meant to show how socialism tends to worsen social conditions by destroying self-reliance and the property base people must be able to create if they are to be self-reliant. The majority of American people have been taught by a humanistic state-supported and state-sponsored public religion (in the guise of democracy) that no end of economic benefits deserve the title of civil rights. They overlook the fact that all of these pseudo civil rights require the redistribution of private property by a system of public robbery.

This public robbery is a form of violence as real as that employed by those wicked persons who break into our homes increasingly these days—and it is far more extensive both in quantity of goods stolen and psychological effect. Violence begets violence, no matter what name you give it. Thus government sponsors the deterioration of moral values in human souls. That, in turn, kills the human qualities and aspirations on which all forms of wealth, spiritual or temporal, are based.

If politicians and bureaucrats of a socialist bent were to get hold of this kind of problem and see that there is an illness that needs curing (a very unlikely probability), the medicine they would prescribe would be new tax regulations designed to give relief to honestly charitable people. (Imagine the confusion that would bring into our tax laws.) But that is not the cure. The cure is a stronger medicine: the withdrawal of past medicines and drugs that have put America into a spiritual coma. Eventually we must get back to where moral values are more prized than the full belly and the warm back. When we do—and I, for one, am convinced that we will—the full bellies and the warm backs will be a blessed by-product, not the main thrust of life.

How can the government encourage the development of loftiness of spirit? Not so much by what it does, unless it be the restoration of the feeling that justice can be expected. It mostly can exalt the souls of men by what it does not do. We must go back to the limited government originally provided by the Constitution.

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Locking Up the Range

THE "lower forty-eight" states of the United States have always been two countries. One is the country of trees and abundant rainfall, reaching from the Atlantic coast to just beyond the tier of states that stretches from Minnesota to Louisiana on the western bank of the Mississippi. The other country, beginning with the Great Plains and continuing westward through mountain territory that collects some irrigation water, is predominantly dry. The different characteristics have invited a confusion of counsel about title to lands, culminating in something that westerners know today as the Sagebrush Rebellion.

Gary D. Libecap, who teaches economics at Texas A&M University, has explored the implications of the Sagebrush Rebellion in a fascinating, though somewhat disjointed, book, *Locking Up the Range: Federal Land Controls and Grazing,* which is published by the Pacific Institute for Public Policy Research of San Francisco and marketed through the Ballinger Publishing Company of Cambridge, Mass., a Harper and Row subsidiary (109 pp.; $17.50 cloth, $8.95 paper). Briefly, Mr. Libecap's message is that public—which means bureaucratic — management of grasslands, far from controlling the waste that comes with overgrazing, is bound to increase it. It is just one more example of the old truism that when "everybody" is responsible for something, nobody really minds the store. No wonder that states such as Nevada, Utah and New Mexico, where the federal government is the big land owner, have tended to support Ronald Reagan's Secretary of the Interior James Watt in his contention, unusual for a government servant, that people on the spot might be better able to care for local resources than bureaucrats trying to

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extend their paper empires some thousands of miles away.

In a condensation of his own book, Mr. Libecap remarks that private parties, leasing sections of the 174 million acres of public land from the Bureau of Land Management in the Department of the Interior, have not had the economic incentive to make necessary improvements on the range property that supports their cattle. The result is that the lands remain below their production potential. The environmentalists, faced with the evidence that there has indeed been overgrazing and a consequent depletion of range fertility, have reacted by calling for more regulation and "multiple use." But who can be trusted to regulate the regulators and to decide on alternative employment for acres which resist the growth of anything but grass or low-lying brush?

Private Ownership

Secretary Watt's answer is to offer some of the western public lands for sale to private ranchers. He has, naturally, been excoriated for the very suggestion. Nevertheless, in his attitude, Watt is the true Jeffersonian. As Jonathan R. T. Hughes of Northwestern University points out in a foreword to Mr. Libecap's book, what the architects of our original national land policy wished to avoid was a "suboptimal use based on uncertain tenure." In planning the Northwest Ordinance of 1785, Thomas Jefferson wrote that the federal government should sell all its vast domain to private owners, guaranteeing in the purchase contract that it should "never after, in any case, revert to the United States." What Jefferson wished to avoid, says Jonathan Hughes, was government ownership of the means of production.

What Jefferson could not guess, despite the reports of the Lewis and Clark expedition, was that land laws designed for the well-watered East needed a special adaptation to the vast territories of what was then known as the Great American Desert. In the Ohio Valley, which was "west" to Jefferson, a small family could do very well on a quarter section or more of land. The quarter section dominated the thinking of the architects of the Homestead Act. Homesteading did handsomely by the generations that took up land on the so-called Middle Border reaching from Wisconsin to where the water began to run out along the hundredth parallel of latitude that bisects the Dakotas and Nebraska. But, as Jonathan Hughes puts it in graphic language, "the American wave of settlers and homesteaders exhausted itself on the edges and in the seams of the western deserts." Dry-land farming had to depend on irrigation water that was problematical. The semi-arid

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grasslands west of the hundredth parallel could only support stock on vast reaches of territory. A General Land Office accustomed to doling out the continent in 160-acre patches could not cope with the necessities of cattle and sheep ranchers.

Overstocking and Overgrazing Unclaimed Public Lands

The first cattlemen lived by "prescriptive right," using the open range on a first-come, first-served basis. The barbed wire enclosure of the small holding was naturally anathema to the first cowpunchers. Compromises reached by the late Eighteen-Eighties combined deeded homesteads with renewable grazing rights on still unclaimed public lands. But as long as the grazing rights were subject to political manipulation, the temporary possessors were inclined to get the most out of the land while the going was good. Where a profit-minded rancher would, under private ownership, refrain from destroying his own estate by overgrazing it, the temporary renter of public domain would have no qualms. Without secure tenure, says Mr. Libecap, "ranchers . . . were reluctant to invest in range improvements . . . expected returns were apt to be low since any benefits would be spread among all herders."

Overstocking paid off in good years—but large herds were vulnerable to sudden drought. When the rains did not replenish the range, ranchers were forced to dump their animals, with consequent disruption of the market.

Insecure tenure, says Mr. Libecap, encourages overstocking and discourages investing in wells and fences. Ranchers have to contend with a situation in which the Bureau of Land Management administers 23 per cent of the acreage in the eleven far-western states. The BLM controls nearly 70 per cent of Nevada, more than 40 per cent of Utah, and some 20 per cent of Wyoming, Oregon, Idaho, Arizona, California, New Mexico and Colorado.

According to Mr. Libecap, 75 per cent of the world's grazing lands which are facing depletion do not have secure tenure arrangements. He calls on Secretary of the Interior Watt to transfer the 174 million acres of rangeland under BLM control to private owners who would have personal stakes in judicious management. Since the purpose should not be to generate real estate profits, but to improve the land, the sale price should be nominal.

There would, of course, be a great hullabaloo if Secretary Watt were to offer the whole 174 million acres for sale at once. But sales in selected spots would provide good laboratory tests. The times are propitious—and Secretary Watt is just the man to stand the gaff of temporary criticism.

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THE MIDNIGHT ECONOMIST: CHOICES, PRICES AND PUBLIC POLICY

by William R. Allen
(Playboy Press, 747 Third Ave., New York, N.Y. 10017), 1981
295 pages ■ $13.50 cloth

Reviewed by Edmund A. Opitz

BY DAY he is an academically credentialed professor of economics at a prestigious university, and he also heads the International Institute for Economic Research. But when night falls he gets on syndicated radio for a three minute commentary as The Midnight Economist. He is William R. Allen, an exceedingly well-integrated dual personality.

For the past several years I have been reading his scripts regularly. Each one has but a single point to make, and makes it brilliantly. Allen has such mastery of his economic philosophy that he brings precisely the relevant considerations to the topic at issue, and no others. His treatment is witty, down-to-earth, and devastating. Who says economics can't be fun?

There's basic stuff here; topics like private property, the free market, money, the corporation. And, there are critiques of communism, consumerism, government tinkering, pollution, energy, unionism, inflation, tariffs, environmentalism, and the like. We discover that economics is not so much a new subject matter as a new way of looking at all subjects. Ecology? We all want to preserve our natural resources; we want to save the whale. Listen to the economist and we'll realize that ecology is a subdivision of economics—and this will keep a lot of environmentalists off the streets. You dislike smog? Allen clears the air. And much more.

Read separately and at intervals, Allen's brief talks were vastly entertaining. In book form they are addictive.

ANTITRUST AND MONOPOLY: ANATOMY OF A POLICY FAILURE

by Dominick T. Armentano
(John Wiley & Sons, 605 Third Ave., New York, N.Y. 10158), 1982
292 pages ■ $22.95 cloth, $12.95 paperback

Reviewed by Brian Summers

THIS is an extensive revision of Professor Armentano's classic 1972 study, *The Myths of Antitrust.* The cases have been updated and the arguments reinforced. A good book has been made even better.

All the major antitrust cases are carefully analyzed and thoroughly critiqued. The economic history of each case is given, along with the important court decisions. Most of

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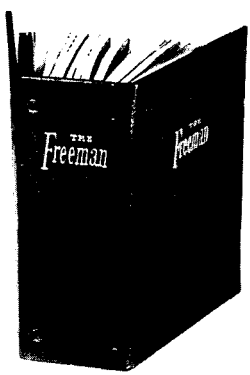
these decisions, the author shows, penalized companies whose only crime was that they reduced costs, improved products, and thus served many willing customers.

But such competitive processes are ignored by the practitioners of antitrust. They view competition, not as a market process aimed at winning customer approval, but in terms of the size and number of firms in a given industry. On these grounds, it has been easy to convict firms which grew because consumers preferred their products.

If a company grows by efficiently serving the buying public, who is to complain? Frequently, complaints are led by the company's rivals. Sometimes they attack the successful firm by filing antitrust suits. Other rivals seek government franchises, certificates of public convenience, licenses, tariffs, price-support programs, and similar barriers to entry. The companies that hide behind these legal barriers are the true monopolists, but they receive scant attention from those who claim to protect the consumer's interests.

Since the publication of *The Myths of Antitrust,* several prominent authors have joined Professor Armentano in criticizing the efficacy of antitrust. But his books remain the only major studies which consistently view competition as a dynamic process, and oppose all antitrust on principle. Only through such principled, carefully reasoned opposition will the antitrust laws be repealed.



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